

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended October 31, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-35394

**Guidewire Software, Inc.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
Incorporation or organization)

1001 E. Hillsdale Blvd., Suite 800  
Foster City, California  
(Address of principal executive offices)

36-4468504  
(I.R.S. Employer  
Identification No.)

94404  
(Zip Code)

(650) 357-9100  
(Registrant's telephone number, including area code)

N/A  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

On October 31, 2015, the registrant had 71,491,693 shares of common stock issued and outstanding.

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FORWARD-LOOKING STATEMENTS

The "Management's Discussion and Analysis of Financial Condition and Results of Operations" section and other parts of this Quarterly Report on Form 10-Q and certain information incorporated herein by reference contain forward-looking statements within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934, which are subject to risks and uncertainties. The forward-looking statements include statements concerning, among other things, our business strategy (including anticipated trends and developments in, and management plans for, our business and the markets in which we operate), financial results, operating results, revenues, gross margins, operating expenses, products, projected costs and capital expenditures, research and development programs, sales and marketing initiatives and competition. In some cases, you can identify these statements by forward-looking words, such as "will," "may," "might," "should," "could," "estimate," "expect," "suggest," "believe," "anticipate," "intend," "plan" and "continue," the negative or plural of these words and other comparable terminology. Actual events or results may differ materially from those expressed or implied by these statements due to various factors, including but not limited to the matters discussed below, in the section titled "Item 1A. Risk Factors," and elsewhere in this Quarterly Report on Form 10-Q. Many of the forward-looking statements are located in "Management's Discussion and Analysis of Financial Condition and Results of Operations." Examples of forward-looking statements include statements regarding:

- growth prospects of the Property & Casualty ("P&C") insurance industry and our company;
- trends in our future sales, including seasonality;
- opportunities for growth by technology leadership;
- competitive advantages of our platform of software application solutions;
- our market strategy in relation to our competitors;
- competitive attributes of our software application solutions;
- opportunities to further expand our position outside of the United States;
- our research and development investment and efforts;
- our gross margins and factors that affect gross margins;
- our provision for tax liabilities and other critical accounting estimates;
- our exposure to market risks, and;
- our ability to satisfy future liquidity requirements.

Forward-looking statements are not guarantees of future performance and involve risks and uncertainties. The forward-looking statements contained in this Quarterly Report on Form 10-Q are based on information available to us as of the filing date of this Quarterly Report on Form 10-Q and our current expectations about future events, which are inherently subject to change and involve risks and uncertainties. You should not place undue reliance on these forward-looking statements.

We do not undertake any obligation to update any forward-looking statements in this report or in any of our other communications, except as required by law. All such forward-looking statements should be read as of the time the statements were made and with the recognition that these forward-looking statements may not be complete or accurate at a later date.

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Unless the context requires otherwise, we are referring to Guidewire Software, Inc. when we use the terms "Guidewire," the "Company," "we," "our" or "us."

## PART I – Financial Information

## ITEM 1. Financial Statements (unaudited)

**GUIDEWIRE SOFTWARE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(unaudited, in thousands)

	October 31, 2015	July 31, 2015
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 192,731	\$ 212,362
Short-term investments	343,800	359,273
Accounts receivable	54,303	62,062
Deferred tax assets, current	13,832	13,845
Prepaid expenses and other current assets	14,416	14,102
Total current assets	619,082	661,644
Long-term investments	127,118	106,117
Property and equipment, net	13,418	12,160
Intangible assets, net	3,639	3,999
Deferred tax assets, noncurrent	12,795	5,896
Goodwill	9,205	9,205
Other assets	1,675	926
<b>TOTAL ASSETS</b>	<b>\$ 786,932</b>	<b>\$ 799,947</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 5,943	\$ 8,816
Accrued employee compensation	17,318	37,235
Deferred revenues, current	46,973	50,766
Other current liabilities	6,477	7,592
Total current liabilities	76,711	104,409
Deferred revenues, noncurrent	2,658	1,800
Other liabilities	3,951	4,350
Total liabilities	83,320	110,559
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock	7	7
Additional paid-in capital	679,080	662,869
Accumulated other comprehensive loss	(6,700)	(6,343)
Retained earnings	31,225	32,855
Total stockholders' equity	703,612	689,388
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 786,932</b>	<b>\$ 799,947</b>

*See accompanying Notes to Condensed Consolidated Financial Statements.*

**GUIDEWIRE SOFTWARE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(unaudited, in thousands except share and per share amounts)

	Three Months Ended October 31,	
	2015	2014
<b>Revenues:</b>		
License	\$ 32,340	\$ 28,820
Maintenance	14,013	12,520
Services	35,927	38,394
Total revenues	82,280	79,734
<b>Cost of revenues:</b>		
License	1,164	1,082
Maintenance	2,475	2,242
Services	31,531	32,447
Total cost of revenues	35,170	35,771
<b>Gross profit:</b>		
License	31,176	27,738
Maintenance	11,538	10,278
Services	4,396	5,947
Total gross profit	47,110	43,963
<b>Operating expenses:</b>		
Research and development	25,672	20,310
Sales and marketing	19,291	17,529
General and administrative	11,110	9,762
Total operating expenses	56,073	47,601
Loss from operations	(8,963)	(3,638)
Interest income	696	512
Other income (expense), net	217	(483)
Loss before income taxes	(8,050)	(3,609)
Benefit from income taxes	(6,420)	(612)
Net loss	\$ (1,630)	\$ (2,997)
<b>Net loss per share:</b>		
Basic	\$ (0.02)	\$ (0.04)
Diluted	\$ (0.02)	\$ (0.04)
<b>Shares used in computing net loss per share:</b>		
Basic	71,242,897	69,316,700
Diluted	71,242,897	69,316,700

*See accompanying Notes to Condensed Consolidated Financial Statements.*

**GUIDEWIRE SOFTWARE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
(unaudited, in thousands)

	Three Months Ended October 31,	
	2015	2014
	(in thousands)	
Net loss	\$ (1,630)	\$ (2,997)
Other comprehensive loss:		
Foreign currency translation adjustments	(287)	(1,269)
Unrealized gains (losses) on available-for-sale securities, net of tax of \$4 and \$8	(50)	33
Reclassification adjustment for realized gains included in net loss	(20)	(3)
Other comprehensive loss	(357)	(1,239)
Comprehensive loss	\$ (1,987)	\$ (4,236)

*See accompanying Notes to Condensed Consolidated Financial Statements*

**GUIDEWIRE SOFTWARE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(unaudited, in thousands)

	Three Months Ended October 31,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (1,630)	\$ (2,997)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,791	1,773
Stock-based compensation	15,147	11,988
Excess tax benefit from exercise of stock options and vesting of restricted stock units	(475)	—
Deferred tax assets	(6,905)	(955)
Amortization of premium on available-for-sale securities	877	1,414
Loss on disposals of property and equipment	18	—
Changes in operating assets and liabilities:		
Accounts receivable	7,638	9,493
Prepaid expenses and other assets	(1,071)	(814)
Accounts payable	(2,542)	87
Accrued employee compensation	(19,840)	(17,232)
Other liabilities	(1,039)	10
Deferred revenues	(2,859)	(8,315)
Net cash used in operating activities	<u>(10,890)</u>	<u>(5,548)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of available-for-sale securities	(195,336)	(113,730)
Sales of available-for-sale securities	188,867	102,539
Purchase of property and equipment	(3,016)	(1,249)
Net cash used in investing activities	<u>(9,485)</u>	<u>(12,440)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of common stock upon exercise of stock options	1,463	1,445
Taxes remitted on RSU awards vested	(874)	(8,570)
Excess tax benefit from exercise of stock options and vesting of restricted stock units	475	—
Net cash provided by (used in) financing activities	<u>1,064</u>	<u>(7,125)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	(320)	(1,478)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(19,631)</b>	<b>(26,591)</b>
CASH AND CASH EQUIVALENTS—Beginning of period	212,362	148,101
CASH AND CASH EQUIVALENTS—End of period	<u>\$ 192,731</u>	<u>\$ 121,510</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid for income taxes	\$ 394	\$ 506
<b>SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Accruals for purchase of property and equipment	\$ 177	\$ 703

*See accompanying Notes to Condensed Consolidated Financial Statements.*

**GUIDEWIRE SOFTWARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(unaudited)**

**1. The Company and Summary of Significant Accounting Policies and Estimates**

***Business***

Guidewire Software, Inc., a Delaware corporation, was incorporated on September 20, 2001. Guidewire Software, Inc., together with its subsidiaries (the "Company"), provides a technology platform which consists of three key elements: core transaction processing, data management and analytics, and digital engagement. It supports core insurance operations, including underwriting and policy administration, claim management and billing. The Company's customers include insurance carriers for property and casualty insurance.

***Basis of Presentation***

The accompanying unaudited condensed consolidated financial statements and accompanying notes include the Company and its wholly-owned subsidiaries, and reflect all adjustments (all of which are normal and recurring in nature) that, in the opinion of management, are necessary for a fair presentation of the interim periods presented. All inter-company balances and transactions have been eliminated in consolidation. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") have been condensed or omitted under the rules and regulations of the Securities and Exchange Commission ("SEC").

These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's financial statements and related notes, together with management's discussion and analysis of financial condition and results of operations, presented in the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2015. There have been no changes in the Company's significant accounting policies from those that were disclosed in the Company's consolidated financial statements for the fiscal year ended July 31, 2015 included in the Company's Annual Report on Form 10-K.

***Use of Estimates***

The preparation of the accompanying condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions about future events that affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amounts of revenues and expenses. Significant items subject to such estimates include revenue recognition, the useful lives of property and equipment and intangible assets, allowance for doubtful accounts, valuation allowance for deferred tax assets, stock-based compensation, annual bonus attainment, income tax uncertainties, valuation of goodwill and intangible assets, and contingencies. These estimates and assumptions are based on management's best estimates and judgment. Management regularly evaluates its estimates and assumptions using historical experience and other factors; however, actual results could differ significantly from these estimates.

***Cash and Cash Equivalents***

Cash and cash equivalents are comprised of cash and highly liquid investments with remaining maturities of 90 days or less at the date of purchase. Cash equivalents consist of commercial paper and money market funds.

***Investments***

Management determines the appropriate classification of investments at the time of purchase based upon management's intent with regard to such investments. All investments are held as available-for-sale investments.

The Company classifies investments as short-term when they have remaining contractual maturities of one year or less from the balance sheet date, and as long-term when the investments have remaining contractual maturities of more than one year from the balance sheet date. All investments are recorded at fair value with unrealized holding gains and losses included in accumulated other comprehensive loss.



### **Concentration of Credit Risk**

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash, cash equivalents, investments and accounts receivable. The Company maintains its cash, cash equivalents and investments with high quality financial institutions. The Company is exposed to credit risk for cash held in financial institutions in the event of a default to the extent that such amounts recorded on the balance sheet are in excess of amounts that are insured by the Federal Deposit Insurance Corporation ("FDIC").

No customer accounted for 10% or more of the Company's revenues for the three months ended October 31, 2015 or 2014. Two customers individually accounted for 10% or more of the Company's total accounts receivable as of October 31, 2015 and no customer accounted for 10% or more of the Company's total accounts receivable as of July 31, 2015.

### **Revenue Recognition**

The Company enters into arrangements to deliver multiple products or services (multiple-elements). The Company applies software revenue recognition rules and allocates the total revenues among elements based on vendor-specific objective evidence ("VSOE") of fair value of each element. The Company recognizes revenue on a net basis excluding taxes collected from customers and remitted to government authorities.

Revenues are derived from three sources:

- (i) License fees, related to term (or time-based) licenses, perpetual software licenses, and other;
- (ii) Maintenance fees, related to email and phone support, bug fixes and unspecified software updates and upgrades released when, and if, available during the maintenance term; and
- (iii) Services fees, related to professional services related to implementation of our software, reimbursable travel and training.

Revenues are recognized when all of the following criteria are met:

- *Persuasive evidence of an arrangement exists.* Evidence of an arrangement consists of a written contract signed by both the customer and management prior to the end of the period.
- *Delivery or performance has occurred.* The Company's software is delivered electronically to the customer. Delivery is considered to have occurred when the Company provides the customer access to the software along with login credentials.
- *Fees are fixed or determinable.* The Company assesses whether a fee is fixed or determinable at the outset of the arrangement, primarily based on the payment terms associated with the transaction. Term and perpetual license fees are not considered to be fixed or determinable until they become due. Fees from term licenses are generally invoiced in annual, or in certain cases quarterly, installments over the term of the agreement beginning on the effective date of the license. Perpetual license fees are generally due between 30 and 60 days from delivery of software, however in certain cases extended payment terms may be offered.
- *Collectability is probable.* Collectability is assessed on a customer-by-customer basis, based primarily on creditworthiness as determined by credit checks and analysis, as well as customer payment history. Payment terms generally range from 30 to 90 days from invoice date. If it is determined prior to revenue recognition that collection of an arrangement fee is not probable, revenues are deferred until collection becomes probable or cash is collected, assuming all other revenue recognition criteria are satisfied.

VSOE of fair value does not exist for the Company's software licenses; therefore, the Company allocates revenues to software licenses using the residual method. Under the residual method, the amount recognized for license fees is the difference between the total fixed and determinable fees and the VSOE of fair value for the undelivered elements under the arrangement.

The VSOE of fair value for elements of an arrangement is based upon the normal pricing and discounting practices for those elements when sold separately. VSOE of fair value for maintenance is established using the stated maintenance renewal rate in the customer's contract. For term licenses with duration of one year or less, no VSOE of fair value for maintenance exists. VSOE of fair value for services is established if a substantial majority of historical stand-alone selling prices for a service fall within a reasonably narrow price range.

If the undelivered elements are all service elements and VSOE of fair value does not exist for one or more service element, the total arrangement fee is recognized ratably over the longest service period starting at software delivery, assuming all the related services have been made available to the customer.

In certain offerings sold as fixed fee arrangements, the Company recognizes services revenues on a proportional performance basis as performance obligations are completed by using the ratio of labor hours to date as an input measure compared to total estimated labor hours for the consulting services.

In cases where professional services are deemed to be essential to the functionality of the software, the arrangement is accounted for using contract accounting until the essential services are complete. If reliable estimates of total project costs can be made, the Company applies the percentage-of-completion method whereby percentage toward completion is measured by using the ratio of service billings to date compared to total estimated service billings for the consulting services. Service billings approximate labor hours as an input measure since they are generally billed monthly on a time and material basis. The fees related to the maintenance are recognized over the period the maintenance is provided.

The Company generally invoices fees for licenses and maintenance to its customers in annual or, in certain cases, quarterly installments payable in advance. Deferred revenues represent amounts, which are billed to or collected from customers for which one or more of the revenue recognition criteria have not been met. The deferred revenues balance does not represent the total contract value of annual or multi-year, non-cancellable arrangements.

#### ***Income Taxes***

Income taxes are accounted for under the asset and liability method. Under this method, the Company determines deferred tax assets and liabilities on the basis of the differences between the financial statement carrying amounts of existing assets and liabilities by using enacted tax rates in effect for the year in which the difference is expected to reverse. Deferred tax assets and liabilities are classified as either current or noncurrent based on the related asset or liability. Deferred tax assets related to excess tax benefits are recorded when utilized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance against deferred tax assets is recorded when it is more likely than not that some portion or all of such deferred tax assets will not be realized and is based on the positive and negative evidence about the future including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations.

The effective tax rate in a given financial statement period may also be materially impacted by changes in the mix and level of income or losses, changes in the expected outcome of audits, or changes in the deferred tax valuation allowance.

The Company records interest and penalties related to unrecognized tax benefits as income tax expense in its condensed consolidated statement of operations.

#### ***Stock-Based Compensation***

The Company recognizes compensation expense related to its stock options and restricted stock units ("RSUs") granted to employees based on the estimated fair value of the awards on the date of grant, net of estimated forfeitures. The awards are subject to time-based vesting, which generally occurs over a period of 4 years. Option awards expire 10 years from the grant date. The Company estimates the grant date fair value, and the resulting stock-based compensation expense, of the Company's stock options using the Black-Scholes option-pricing model. The Company recognizes the fair value of stock-based compensation for awards which contain only service conditions on a straight-line basis over the requisite service period, which is generally the vesting period of the respective awards. The Company recognizes the compensation cost for awards which contain performance conditions based upon the probability of that performance condition being met, net of estimated forfeitures, using the graded method.

#### **Recent Accounting Pronouncement**

##### ***Balance Sheet Classification of Deferred Taxes***

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Subtopic 740-10) which provides guidance for balance sheet classification of deferred taxes. This ASU requires that deferred tax assets and liabilities be classified as non-current on the balance sheet. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments in this ASU. ASU 2015-17 is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods with earlier application permitted as of the beginning of an interim or annual reporting period. The amendments in this Update may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. We have not yet selected a transition method and continue to evaluate the impact that this guidance will have on our consolidated financial statements.

### Cloud Computing Arrangements that Include a Software Element

In April 2015, the FASB issued ASU 2015-05, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement (ASU 2015-05). ASU 2015-05 provides guidance to customers about whether a cloud computing arrangement includes software. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The new guidance does not change the accounting for service contracts. ASU 2015-05 is effective for the Company in the first quarter of fiscal 2017 with early adoption permitted using either of two methods: (i) prospective to all arrangements entered into or materially modified after the effective date and represent a change in accounting principle; or (ii) retrospectively. The Company has evaluated the impact of the adoption of ASU 2015-05 and concluded that the adoption will not have a material impact on its consolidated financial statements.

### Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which provides guidance for revenue recognition. This ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of non-financial assets. This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition-Construction-Type and Production-Type Contracts. In July 2015, the FASB deferred the effective date to annual reporting periods and interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The standard will be effective for the Company beginning August 1, 2018 and permits the use of either the retrospective or cumulative effect transition method. We have not yet selected a transition method and continue to evaluate the impact that this guidance will have on our consolidated financial statements.

## 2. Fair Value of Financial Instruments

Available-for-sale investments within cash equivalents and investments consist of the following:

	October 31, 2015			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
	(in thousands)			
U.S. agency securities	\$ 104,668	\$ 16	\$ (8)	\$ 104,676
Commercial paper	120,295	11	(1)	120,305
Corporate bonds	265,127	91	(281)	264,937
U.S. government bonds	43,081	3	(28)	43,056
Foreign government bonds	8,630	5	—	8,635
Money market funds	100,704	—	—	100,704
Total	\$ 642,505	\$ 126	\$ (318)	\$ 642,313

	July 31, 2015			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
	(in thousands)			
U.S. agency securities	\$ 82,946	\$ 21	\$ (4)	\$ 82,963
Commercial paper	142,822	13	(4)	142,831
Corporate bonds	281,942	47	(216)	281,773
U.S. government bonds	32,529	13	(2)	32,540
Foreign government bonds	8,663	7	(2)	8,668
Certificate of deposit	2,700	—	—	2,700
Money market funds	88,319	—	—	88,319
Total	\$ 639,921	\$ 101	\$ (228)	\$ 639,794

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	October 31, 2015					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in thousands)					
Commercial paper	\$ 56,926	\$ (1)	\$ —	\$ —	\$ 56,926	\$ (1)
U.S. agency securities	35,508	(8)	—	—	35,508	(8)
Corporate bonds	142,383	(280)	5,875	(1)	148,258	(281)
U.S. government bonds	25,057	(28)	—	—	25,057	(28)
Foreign government bonds	2,900	*	—	—	2,900	*
Total	\$ 262,774	\$ (317)	\$ 5,875	\$ (1)	\$ 268,649	\$ (318)

\* Amount less than one thousand dollars.

As of October 31, 2015, the Company had 96 investments in a gross unrealized loss position. The unrealized losses on its available-for-sale securities were primarily a result of changes in interest rates subsequent to the initial purchase of these securities. The Company does not intend to sell, nor believe it will need to sell, these securities before recovering the associated unrealized losses. The Company does not consider any portion of the unrealized losses at October 31, 2015 to be an other-than-temporary impairment, nor are any unrealized losses considered to be credit losses. The Company has recorded the securities at fair value in its condensed consolidated balance sheets, with unrealized gains and losses reported as a component of accumulated other comprehensive loss. The amounts of realized gains and losses reclassified into earnings are based on the specific identification of the securities sold. The realized gains and losses from sales of securities in the periods presented were not significant.

The following table summarizes the contractual maturities of the Company's available-for-sale securities as of October 31, 2015:

	Less Than 12 Months		12 to 36 Months		Total	
	(in thousands)					
U.S. agency securities	\$	78,848	\$	25,828	\$	104,676
Commercial paper		120,305		—		120,305
Corporate bonds		178,710		86,227		264,937
U.S. government bonds		27,993		15,063		43,056
Foreign government bonds		8,635		—		8,635
Money market funds		100,704		—		100,704
Total	\$	515,195	\$	127,118	\$	642,313

Fair value is defined as the exchange price that would be received for an asset or an exit price paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The current accounting guidance for fair value measurements defines a three-level valuation hierarchy for disclosures as follows:

Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2—Inputs other than quoted prices included within Level 1 that are observable, unadjusted quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data; and

Level 3—Unobservable inputs that are supported by little or no market activity, which require the Company to develop its own assumptions.

The categorization of a financial instrument within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The carrying value of the Company's accounts receivable, accounts payable and accrued liabilities approximates their fair value due to the short-term nature of these instruments.

The Company bases the fair value of its Level 1 financial instruments, which are in active markets, using quoted market prices for identical instruments.

The Company obtains the fair value of its Level 2 financial instruments, which are not in active markets, from a third-party professional pricing service using quoted market prices for identical or comparable instruments, rather than direct observations of quoted prices in active markets. The Company's professional pricing service gathers observable inputs for all of its fixed income securities from a variety of industry data providers (e.g. large custodial institutions) and other third-party sources. Once the observable inputs are gathered, all data points are considered and an average price is determined.

The Company validates the quoted market prices provided by its primary pricing service by comparing their assessment of the fair values of its Level 2 investment portfolio balance against the fair values of its Level 2 investment portfolio balance provided by its investment managers. The Company's investment managers use similar techniques to its professional pricing service to derive pricing as described above.

The Company did not have any Level 3 financial assets or liabilities as of October 31, 2015 or July 31, 2015.

The following tables summarize the Company's financial assets measured at fair value on a recurring basis, by level within the fair value hierarchy as of October 31, 2015 and July 31, 2015:

	October 31, 2015			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets				
Cash and cash equivalents:				
Commercial paper	\$ —	\$ 70,691	\$ —	\$ 70,691
Money market funds	100,704	—	—	100,704
Short-term investments:				
U.S. agency securities	—	78,848	—	78,848
Commercial paper	—	49,614	—	49,614
Corporate bonds	—	178,710	—	178,710
U.S. government bonds	—	27,993	—	27,993
Foreign government bonds	—	8,635	—	8,635
Long-term investments:				
U.S. agency securities	—	25,828	—	25,828
U.S. government bonds	—	15,063	—	15,063
Corporate bonds	—	86,227	—	86,227
Total assets	<u>\$ 100,704</u>	<u>\$ 541,609</u>	<u>\$ —</u>	<u>\$ 642,313</u>

	July 31, 2015			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets				
Cash and cash equivalents:				
Commercial paper	\$ —	\$ 86,085	\$ —	\$ 86,085
Money market funds	88,319	—	—	88,319
Short-term investments:				
U.S. agency securities	—	68,212	—	68,212
Commercial paper	—	56,746	—	56,746
U. S. government bonds	—	19,983	—	19,983
Foreign government bonds	—	8,668	—	8,668
Corporate bonds	—	202,964	—	202,964
Certificate of deposit	—	2,700	—	2,700
Long-term investments:				
U.S. agency securities	—	14,751	—	14,751
Corporate bonds	—	78,809	—	78,809
U.S. government bonds	—	12,557	—	12,557
<b>Total assets</b>	<b>\$ 88,319</b>	<b>\$ 551,475</b>	<b>\$ —</b>	<b>\$ 639,794</b>

### 3. Balance Sheet Components

#### *Property and Equipment, Net*

Property and equipment consist of the following:

	October 31, 2015	July 31, 2015
	(in thousands)	
Computer hardware	\$ 17,477	\$ 15,099
Software	4,873	4,867
Furniture and fixtures	3,126	3,065
Leasehold improvements	8,089	8,040
Total property and equipment	33,565	31,071
Less accumulated depreciation	(20,147)	(18,911)
Property and equipment, net	\$ 13,418	\$ 12,160

As of October 31, 2015 and July 31, 2015, no property and equipment was pledged as collateral against borrowings. Depreciation expense was \$1.4 million and \$1.4 million for the three months ended October 31, 2015 and 2014, respectively.

#### *Intangible Assets*

Intangible assets consist of the following:

	October 31, 2015	July 31, 2015
	(in thousands)	
Acquired technology:		
Cost	\$ 7,200	\$ 7,200
Accumulated amortization	(3,561)	(3,201)
Intangible assets, net	\$ 3,639	\$ 3,999

Amortization expense was \$0.4 million and \$0.4 million for the three months ended October 31, 2015 and 2014, respectively. Estimated aggregate amortization expense for each of the next three fiscal years is as follows:

Fiscal year ending July 31,	<b>Future Amortization</b> <b>(in thousands)</b>
2016 (remainder of fiscal year)	1,080
2017	1,440
2018	1,119
<b>Total</b>	<b>\$ 3,639</b>

**Accrued Employee Compensation**

Accrued employee compensation consists of the following:

	<b>October 31, 2015</b>	<b>July 31, 2015</b>
	<b>(in thousands)</b>	
Accrued bonuses	\$ 4,641	\$ 19,819
Accrued commission	674	5,008
Accrued vacation	8,374	7,980
Accrued salaries, payroll taxes and benefits	3,629	4,428
<b>Total</b>	<b>\$ 17,318</b>	<b>\$ 37,235</b>

**Accumulated Other Comprehensive Loss**

Changes in accumulated other comprehensive loss by component during the three months ended October 31, 2015 were as follows:

	<b>Foreign Currency Items</b>	<b>Unrealized gain (loss) on available-for-sale securities</b>	<b>Total</b>
	<b>(in thousands)</b>		
Balance as of July 31, 2015	\$ (6,247)	\$ (96)	\$ (6,343)
Other comprehensive gain (loss) before reclassification	(287)	(46)	(333)
Amounts reclassified from accumulated other comprehensive loss to earnings	—	(20)	(20)
Tax effect	—	(4)	(4)
<b>Balance as of October 31, 2015</b>	<b>\$ (6,534)</b>	<b>\$ (166)</b>	<b>\$ (6,700)</b>

**4. Net Loss Per Share**

The following table sets forth the computation of the Company's basic and diluted net loss per share for the three months ended October 31, 2015 and 2014:

	Three Months Ended October 31,	
	2015	2014
(in thousands, except share and per share amounts)		
Numerator:		
Net loss	\$ (1,630)	\$ (2,997)
Net loss per share:		
Basic	\$ (0.02)	\$ (0.04)
Diluted	\$ (0.02)	\$ (0.04)
Denominator:		
Weighted average shares used in computing net loss per share:		
Basic	71,242,897	69,316,700
Diluted	71,242,897	69,316,700

The following weighted shares outstanding of potential common stock were excluded from the computation of diluted loss per share for the periods presented because including them would have been antidilutive:

	Three Months Ended October 31,	
	2015	2014
Stock options to purchase common stock	1,573,487	2,386,474
Restricted stock units	3,360,099	3,763,160

**5. Commitments and Contingencies**

There has been no material change in the Company's contractual obligations and commitments other than in the ordinary course of business since the Company's fiscal year ended July 31, 2015. See the Annual Report on Form 10-K for the fiscal year ended July 31, 2015 for additional information regarding the Company's contractual obligations.

**Leases**

The Company leases certain facilities and equipment under operating leases. On December 5, 2011, the Company entered into a seven-year lease for a facility to serve as its corporate headquarters, located in Foster City, California, for approximately 97,674 square feet of space which commenced on August 1, 2012. In connection with this lease, the Company opened an unsecured letter of credit with Silicon Valley Bank for \$1.2 million. On July 1, 2015, the unsecured letter of credit was reduced to \$0.4 million in accordance with the lease agreement.

Lease expense for all worldwide facilities and equipment, which is being recognized on a straight-line basis over terms of the various leases, was \$1.4 million and \$1.6 million for the three months ended October 31, 2015 and 2014, respectively.

**Letters of Credit**

The Company had two outstanding letters of credit required to secure contractual commitments and prepayments as of October 31, 2015 and July 31, 2015, respectively. In addition to the unsecured letter of credit for the building lease, the Company had an unsecured letter of credit agreement related to a customer arrangement for Polish Zloty 10.0 million (approximately \$2.6 million as of October 31, 2015) to secure contractual commitments and prepayments. No amounts were outstanding under the Company's unsecured letters of credit as of October 31, 2015 or July 31, 2015.

**Legal Proceedings**

From time to time, the Company is involved in various legal proceedings and receives claims, arising from the normal course of business activities. The Company accrues for estimated losses in the accompanying condensed consolidated financial



statements for matters with respect to which the Company believes the likelihood of an adverse outcome is probable and the amount of the loss is reasonably estimable.

**Indemnification**

The Company sells software licenses and services to its customers under contracts (“Software License”). Each Software License contains the terms of the contractual arrangement with the customer and generally includes certain provisions for defending the customer against any claims that the Company’s software infringes upon a patent, copyright, trademark, or other proprietary right of a third party. Software Licenses also indemnify the customer against losses, expenses, and liabilities from damages that may be assessed against the customer in the event the Company’s software is found to infringe upon such third party rights.

The Company has not had to reimburse any of its customers for losses related to indemnification provisions and no material claims against the Company were outstanding as of October 31, 2015 or July 31, 2015. For several reasons, including the lack of prior indemnification claims and the lack of a monetary liability limit for certain infringement cases under various Software Licenses, the Company cannot estimate the amount of potential future payments, if any, related to indemnification provisions.

The Company has also agreed to indemnify its directors and executive officers for costs associated with any fees, expenses, judgments, fines and settlement amounts incurred by any of these persons in any action or proceeding to which any of these persons is, or is threatened to be, made a party by reason of the person’s service as a director or officer, including any action by the Company, arising out of that person’s services as the Company’s director or officer or that person’s services provided to any other company or enterprise at the Company’s request. The Company maintains director and officer insurance coverage that may enable the Company to recover a portion of any future amounts paid.

**6. Stockholders’ Equity and Stock-Based Compensation**

**Stock-Based Compensation Expense**

Stock-based compensation expense related to all employee and non-employee stock-based awards is as follows:

	Three Months Ended October 31,	
	2015	2014
Stock-based compensation expenses:	(in thousands)	
Cost of license revenues	\$ 89	\$ 49
Cost of maintenance revenues	339	277
Cost of services revenues	4,363	3,513
Research and development	3,672	2,143
Sales and marketing	3,430	2,987
General and administrative	3,254	3,019
Total stock-based compensation expenses	<u>\$ 15,147</u>	<u>\$ 11,988</u>

As of October 31, 2015, total unamortized compensation cost, adjusted for estimated forfeitures, was as follows:

	As of October 31, 2015	
	Unrecognized Expense (in thousands)	Weighted Average Expected Recognition Period (in years)
Stock options	\$ 4,444	2.1
Restricted stock units	136,218	2.7
	<u>\$ 140,662</u>	

**RSUs**

RSU activity under the Company's equity incentive plans is as follows:

	RSUs Outstanding			
	Number of RSUs Outstanding	Weighted Average Grant Date Fair Value	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value <sup>(1)</sup>
Balance as of July 31, 2015	2,882,674	\$	42.65	\$ 170,222
Granted	1,160,754	\$	54.00	
Released	(356,094)	\$	34.29	\$ 18,439
Canceled	(117,521)	\$	44.13	
Balance as of October 31, 2015	3,569,813	\$	47.13	\$ 207,870
Expected to vest as of October 31, 2015	3,282,240	\$	46.83	\$ 191,125

<sup>(1)</sup> Aggregate intrinsic value at each period end represents the total market value of RSUs at the Company's closing stock price of \$58.23 and \$59.05 on October 31, 2015 and July 31, 2015, respectively. Aggregate intrinsic value for released RSUs represents the total market value of released RSUs at date of release.

**Stock Options**

Stock option activity under the Company's equity incentive plans is as follows:

	Stock Options Outstanding			
	Number of Stock Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value <sup>(1)</sup> (in thousands)
Balance as of July 31, 2015	1,822,062	\$	14.29	\$ 81,548
Granted	10,000	\$	54.00	
Exercised	(146,744)	\$	9.96	\$ 6,433
Canceled	(16,376)	\$	42.33	
Balance as of October 31, 2015	1,668,942	\$	14.64	\$ 72,753
Vested and expected to vest as of October 31, 2015	1,656,065	\$	14.38	\$ 72,616
Exercisable as of October 31, 2015	1,402,411	\$	9.09	\$ 68,921

<sup>(1)</sup> Aggregate intrinsic value at each period end represents the difference between the Company's closing stock prices of \$58.23 and \$59.05 on October 31, 2015 and July 31, 2015, respectively, and the exercise price of outstanding options. Aggregate intrinsic value for exercised options represents the difference between the Company's stock price at date of exercise and the exercise price.

**Valuation of Awards**

The assumptions used to estimate the grant date fair value of options and weighted average grant date fair value of options are as follows:

	Three Months Ended October 31,	
	2015	2014
Expected life (in years)	4.9	6.0
Risk-free interest rate	1.49%	1.92%
Expected volatility	38.8%	45.1%
Expected dividend yield	—%	—%
Weighted average fair value of options at grant date	\$19.18	\$20.53

Beginning fiscal year 2016, the Company began estimating the expected term using a historical data method, instead of the simplified method, because it now has sufficient data to estimate the stock option exercise period based on its historical stock option activity and employee termination data. In addition, the Company began estimating the volatility using its own common stock data, instead of volatility of several comparable public listed peers, as the Company now has sufficient trading history of its stock.

#### **Common Stock Reserved for Issuance**

As of October 31, 2015 and July 31, 2015, the Company was authorized to issue 500,000,000 shares of common stock with a par value of \$0.0001 per share, and 71,491,693 and 71,005,738 shares of common stock were issued and outstanding, respectively. As of October 31, 2015 and July 31, 2015, the Company had reserved shares of common stock for future issuance as follows:

	October 31, 2015	July 31, 2015
Exercise of stock options to purchase common stock	1,668,942	1,822,062
Vesting of restricted stock units	3,569,813	2,882,674
Shares available under stock plans	13,343,932	14,363,906
Total common stock reserved for issuance	18,582,687	19,068,642

#### **7. Income Taxes**

The Company recognized income tax benefits of \$6.4 million and \$0.6 million for the three months ended October 31, 2015 and 2014, respectively. The change was primarily due to a larger loss before taxes for the three months ended October 31, 2015, as compared to the same period a year ago. The effective tax rate of 79.8% for the three months ended October 31, 2015 differs from the statutory U.S. federal income tax rate of 35% mainly due to permanent differences for foreign stock-based compensation, U.S. domestic production activity deduction, and the tax rate differences between the United States and foreign countries.

The Company provides U.S. income taxes on the earnings of foreign subsidiaries, unless the subsidiaries' earnings are considered indefinitely reinvested outside the United States. As of October 31, 2015, U.S. income taxes were not provided for on the cumulative total of \$25.8 million undistributed earnings from certain foreign subsidiaries. As of October 31, 2015, the unrecognized deferred tax liability for these earnings was approximately \$8.7 million.

During the three months ended October 31, 2015, the change in unrecognized tax benefits from the beginning of the period was \$0.2 million. Accordingly, as of October 31, 2015, the Company had unrecognized tax benefits of \$2.8 million that, if recognized, would affect the Company's effective tax rate.

#### **8. Segment Information**

The Company operates in one segment. The Company's chief operating decision maker (the "CODM"), its Chief Executive Officer, manages the Company's operations on a consolidated basis for purposes of allocating resources. When evaluating the Company's financial performance, the CODM reviews separate revenues information for the Company's license, maintenance and professional services offerings, while all other financial information is reviewed on a consolidated basis. All of the Company's principal operations and decision-making functions are located in the United States.

The following table sets forth revenues by country and region based on the billing address of the customer:

	<b>Three Months Ended October 31,</b>	
	<b>2015</b>	<b>2014</b>
	<b>(in thousands)</b>	
United States	\$ 43,107	\$ 38,948
Canada	9,058	8,387
Other Americas	2,449	1,858
Total Americas	54,614	49,193
United Kingdom	9,687	12,198
Other EMEA	6,875	11,789
Total EMEA	16,562	23,987
Total APAC	11,104	6,554
Total revenues	\$ 82,280	\$ 79,734

No country, other than those presented above, accounted for more than 10% of revenues during the three months ended October 31, 2015 and 2014.

The following table sets forth the Company's long-lived assets, including intangibles and goodwill, net by geographic region:

	<b>October 31, 2015</b>	<b>July 31, 2015</b>
	<b>(in thousands)</b>	
Americas	\$ 23,810	\$ 22,746
EMEA	2,051	2,183
APAC	401	435
Total	\$ 26,262	\$ 25,364

## ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion and analysis should be read in conjunction with our condensed consolidated financial statements and the notes thereto included elsewhere in this document and the Risk Factors included in Item 1A of Part II of this Quarterly Report on Form 10-Q. All information presented herein is based on our fiscal calendar. Unless otherwise stated, references in this report to particular years or quarters refer to our fiscal years ended in July and the associated quarters of those fiscal years. We do not undertake, and specifically disclaim, any obligation to update any forward-looking statements to reflect the occurrence of events or circumstances after the date of such statements except as required by law.*

### Overview

We are a leading provider of a software platform for Property & Casualty ("P&C") insurers that replaces their legacy core systems and transforms their business. Our platform consists of three key elements: core transaction processing, data management and analytics, and digital engagement, which work together to strengthen our customers' ability to engage and empower their customers, agents, and employees. Our InsuranceSuite™ products provide transactional systems of record, which support the entire insurance lifecycle. Our data management and analytics products enable insurers to manage data more effectively and gain insights that can lead to better business decisions. Our digital engagement products support digital sales, service and claims experiences for policyholders, agents, and other key stakeholders.

We sell our products to a wide variety of global P&C insurance carriers ranging from some of the largest global insurance carriers or their subsidiaries to national carriers and to regional carriers. We continue to expand our global reach with sales and marketing growth in Europe, Asia and Latin America. Our customer engagement is led by our direct sales model and supported by our system integrator ("SI") partners. Customers can buy our software applications, PolicyCenter™, ClaimCenter™ and BillingCenter™, either separately or in combination as a suite. We refer to the combination of all three applications as InsuranceSuite. We continue to invest in sales and marketing as well as in our SI partnerships and we work to align with each insurer's strategic goals in order to address any sales cycle risk. Strong customer relationships are a key driver of our success given the long-term nature of our contracts and the importance of customer references for new sales. We continue to focus on deepening our customer relationships through continued successful product implementations, robust product support, strategic engagement on new products and technologies, and ongoing account management.

Our sales cycles for new and existing customers remain protracted as customers are deliberate and the decision making and product evaluation process is long. Sales to new customers also involve extensive customer due diligence and reference checks. We must also earn credibility as we expand our sales operations and enter new markets which require investment not only in sales and services capabilities, but in development to optimize our products for such new markets.

Our data management and analytics and digital engagement products are sold to customers of InsuranceSuite or one of its component applications, which naturally limits the quantity of potential customers. Some sales of new products are generated at the same time as an insurance carrier becomes a new customer of InsuranceSuite or one of its applications, or are sold later as cross-sell opportunities.

We primarily enter into term based licenses ranging from 2 to 7 years. These contracts are renewable on an annual or multi-year basis. We generally price our licenses based on the amount of direct written premiums ("DWP") that will be managed by our solutions. We typically invoice our customers annually in advance or, in certain cases, quarterly for both recurring term license and maintenance fees. Our sales and marketing efforts are affected by seasonal variations in which our customer orders are higher in the second and fourth quarters of our fiscal year. We primarily derive our services revenues from implementation, integration and training services. Our implementation teams assist customers in building implementation plans, integrating our software with their existing systems, and defining business rules and requirements unique to each customer.

To extend our technology leadership in the global market, we continue to invest in research and development to enhance and improve our current products and introduce new products to market. Continued investment in product innovation is critical as we seek to: assist our customers in their IT goals; maintain our competitive advantage; grow our revenues and expand internationally; and meet evolving customer demands.

We partner with leading SIs to assist in the implementation of our products in a manner that increases efficiency and scale while reducing customer implementation costs. Our extensive relationships with SIs and industry partners have strengthened and expanded in line with the interest in and adoption of our products. We encourage our partners to co-market, pursue joint sales initiatives and drive broader adoption of our technology, helping us grow our business more efficiently and focus our engineering resources on continued innovation. Our track record of success with customers and their implementations are

central to our strategy. We continue to focus and invest time and resources in increasing the number of qualified consultants employed by our SI partners, develop relationships with new SIs in existing and new markets, and ensure that all partners are ready to assist with implementing our products.

We face a number of risks in the execution of our strategy including risks related to expanding to new markets, managing lengthy sales cycles, competing effectively in the global market, relying on sales to a relatively small number of large customers, developing new products successfully, and increasing the overall adoption of our products. In response to these and other risks we might face, we continue to invest in many areas of our business. Our investments in sales and marketing align with our goal of winning new customers in both existing and new markets, and enable us to maintain a persistent, consultative relationship with our existing customers. Our investments in product development are designed to meet the evolving needs of our customers.

**Seasonality**

We have historically experienced seasonal variations in our revenues as a result of increased customer orders in our second and fourth fiscal quarters. We generally see increased orders in our second fiscal quarter, which is the quarter ended January 31, due to customer buying patterns. We also see increased orders in our fourth fiscal quarter due to efforts by our sales team to achieve annual incentives.

Our services revenues are also subject to seasonal fluctuations, though to a lesser degree than our license revenues. Our services revenues and gross margins are impacted by the number of billable days in a given fiscal quarter while we pay our services professionals the same amounts throughout the year.

**Key Business Metrics**

We use certain key metrics to evaluate and manage our business, including rolling four-quarter recurring revenues from term licenses and total maintenance. In addition, we present select GAAP and non-GAAP financial metrics that we use internally to manage the business and that we believe are useful for investors. These metrics include Adjusted EBITDA and operating cash flow.

**Four-Quarter Recurring Revenues**

We measure four-quarter recurring revenues by adding the total term license revenues and total maintenance revenues recognized in the preceding four quarters ended in the stated period and excluding perpetual license revenues, revenues from perpetual buyout rights and services revenues. This metric allows us to better understand the trends in our recurring revenues because it typically reduces the variations in any particular quarter caused by seasonality, the effects of the annual invoicing of our term licenses and certain effects of contractual provisions that may accelerate or delay revenue recognition in some cases. Our four-quarter recurring revenues for each of the nine periods presented were:

	Four quarters ended								
	October 31, 2015	July 31, 2015	April 30, 2015	January 31, 2015	October 31, 2014	July 31, 2014	April 30, 2014	January 31, 2014	October 31, 2013
	(in thousands)								
Term license revenues	\$ 173,232	\$ 169,366	\$ 160,114	\$ 157,542	\$ 150,309	\$ 139,902	\$ 125,485	\$ 115,144	\$ 110,640
Maintenance revenues	51,516	50,024	48,785	47,041	44,768	41,888	39,836	38,510	37,830
Total four-quarter recurring revenues	\$ 224,748	\$ 219,390	\$ 208,899	\$ 204,583	\$ 195,077	\$ 181,790	\$ 165,321	\$ 153,654	\$ 148,470

**Adjusted EBITDA**

We believe Adjusted EBITDA, a non-GAAP financial measure, is useful in evaluating our operating performance compared to that of other companies in our industry, as this metric generally eliminates the effects of certain items that may vary for different companies for reasons unrelated to overall operating performance. We believe that:

- Adjusted EBITDA provides investors and other users of our financial information consistency and comparability with our past financial performance, facilitates period-to-period comparisons of operations and facilitates comparisons with other companies, many of which use similar non-GAAP financial measures to supplement their GAAP results; and

- it is useful to exclude non-cash charges, such as depreciation and amortization and stock-based compensation because the amount of such expenses in any specific period may not directly correlate to the underlying performance of our business operations and these expenses can vary significantly between periods.

We use Adjusted EBITDA in conjunction with traditional GAAP measures as part of our overall assessment of our performance, including the preparation of our annual operating budget and quarterly forecasts, to evaluate the effectiveness of our business strategies and to communicate with our board of directors concerning our financial performance.

Adjusted EBITDA should not be considered as a substitute for other measures of financial performance reported in accordance with GAAP. There are limitations to using non-GAAP financial measures, including that other companies may calculate these measures differently than we do. We compensate for the inherent limitations associated with using Adjusted EBITDA through disclosure of these limitations, presentation of our financial statements in accordance with GAAP and reconciliation of Adjusted EBITDA to the most directly comparable GAAP measure, net income (loss). The following table provides a reconciliation of net loss to Adjusted EBITDA:

	Three Months Ended October 31,	
	2015	2014
(in thousands)		
Reconciliation of Adjusted EBITDA:		
Net loss	\$ (1,630)	\$ (2,997)
Non-GAAP adjustments:		
Benefit from income taxes	(6,420)	(612)
Interest income	(696)	(512)
Other expense (income), net	(217)	483
Depreciation and amortization	1,791	1,773
Stock-based compensation	15,147	11,988
Adjusted EBITDA	<u>\$ 7,975</u>	<u>\$ 10,123</u>

**Operating Cash Flows**

We monitor our cash flows from operating activities, or operating cash flows, as a key measure of our overall business performance, which enables us to analyze our financial performance without the effects of certain non-cash items such as depreciation and amortization and stock-based compensation expenses. Additionally, operating cash flows takes into account the impact of changes in deferred revenues, which reflects the receipt of cash payment for products before they are recognized as revenues. Our operating cash flows are significantly impacted by timing of invoicing and collections of accounts receivable, annual bonus payment, as well as payments of payroll and other taxes. As a result, our operating cash flows fluctuate significantly on a quarterly basis. Cash used by operations was \$10.9 million and \$5.5 million for the three months ended October 31, 2015 and 2014, respectively. For a further discussion of our operating cash flows, see "Liquidity and Capital Resources—Cash Flows from Operating Activities."

**Critical Accounting Policies and Estimates**

Our condensed consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). Accounting policies, methods and estimates are an integral part of the preparation of condensed consolidated financial statements in accordance with U.S. GAAP and, in part, are based upon management's current judgments. Those judgments are normally based on knowledge and experience with regard to past and current events and assumptions about future events. Certain accounting policies, methods and estimates are particularly sensitive because of their significance to the condensed consolidated financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. While there are a number of accounting policies, methods and estimates affecting our condensed consolidated financial statements, areas that are particularly significant include:

- Revenue recognition policies;
- Stock-based compensation; and
- Income taxes.

There were no significant changes in our critical accounting policies and estimates during the three months ended October 31, 2015. Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K filed on September 17, 2015 for a more complete discussion of our critical accounting policies and estimates.

#### Results of Operations

The following tables set forth our results of operations for the periods presented. The data has been derived from the unaudited Condensed Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q which, in the opinion of our management, reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position and results of operations for the interim periods presented. The operating results for any period should not be considered indicative of results for any future period. This information should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in our Annual Report on Form 10-K filed with the SEC on September 17, 2015.

	Three Months Ended October 31,	
	2015	2014
	(in thousands)	
Revenues:		
License	\$ 32,340	\$ 28,820
Maintenance	14,013	12,520
Services	35,927	38,394
Total revenues	82,280	79,734
Cost of revenues:		
License	1,164	1,082
Maintenance	2,475	2,242
Services	31,531	32,447
Total cost of revenues	35,170	35,771
Gross profit:		
License	31,176	27,738
Maintenance	11,538	10,278
Services	4,396	5,947
Total gross profit	47,110	43,963
Operating expenses:		
Research and development	25,672	20,310
Sales and marketing	19,291	17,529
General and administrative	11,110	9,762
Total operating expenses	56,073	47,601
Loss from operations	(8,963)	(3,638)
Interest income	696	512
Other income (expense), net	217	(483)
Loss before income taxes	(8,050)	(3,609)
Benefit from income taxes	(6,420)	(612)
Net loss	\$ (1,630)	\$ (2,997)



	Three Months Ended October 31,	
	2015	2014
	(percentage of total revenues)	
<b>Revenues:</b>		
License	39 %	36 %
Maintenance	17 %	16 %
Services	44 %	48 %
Total revenues	100 %	100 %
<b>Cost of revenues:</b>		
License	1 %	1 %
Maintenance	3 %	3 %
Services	39 %	41 %
Total cost of revenues	43 %	45 %
<b>Gross profit:</b>		
License	38 %	35 %
Maintenance	14 %	13 %
Services	5 %	7 %
Total gross profit	57 %	55 %
<b>Operating expenses:</b>		
Research and development	31 %	26 %
Sales and marketing	23 %	22 %
General and administrative	14 %	12 %
Total operating expenses	68 %	60 %
Loss from operations	(11)%	(5)%
Interest income	1 %	1 %
Other income (expense), net	— %	(1)%
Loss before income taxes	(10)%	(5)%
Benefit from income taxes	(8)%	(1)%
Net loss	(2)%	(4)%

### **Revenues**

We derive our revenues from licensing our software applications, providing maintenance support and professional services. Our license revenues are primarily generated through annual license fees that recur during the term of our multi-year contracts. These multi-year contracts have licensing terms ranging from 2 to 7 years and are renewable on an annual or multi-year basis. In certain cases, when required by a customer, we license our software on a perpetual basis. In addition, certain of our multi-year term licenses provide the customer with the option to purchase a perpetual license at the end of the initial contract term, which we refer to as a perpetual buyout right. We generally price our licenses based on the amount of direct written premiums, or DWP, that will be managed by our solutions. We typically invoice our customers annually in advance or quarterly for both term license and maintenance fees, and we invoice our perpetual license customers either in full at contract signing or on an installment basis and invoice related maintenance fees annually in advance. Our license revenues have generally been recognized when payment is due from our customers.

Our maintenance revenues are generally recognized over the committed maintenance term. Our maintenance fees are typically priced as a fixed percentage of the associated license fees.

A substantial majority of our services engagements generate revenues on a time and materials basis and revenues are typically recognized upon delivery of our services. We derive our services revenues primarily from implementation services performed for our customers, reimbursable travel expenses and training fees.

Refer to Note 1 of Notes to Condensed Consolidated Financial Statements for a description of our accounting policy related to revenue recognition.

	Three Months Ended October 31,						Change		
	2015		2014		(\$)	(%)			
	Amount	% of total revenues	Amount	% of total revenues					
(in thousands, except percentages)									
Revenues:									
License	\$ 32,340	39%	\$ 28,820	36%	\$ 3,520		12 %		
Maintenance	14,013	17%	12,520	16%	1,493		12 %		
Services	35,927	44%	38,394	48%	(2,467)		(6)%		
Total revenues	\$ 82,280	100%	\$ 79,734	100%	\$ 2,546		3 %		

#### License Revenues

The \$3.5 million increase in license revenues during the three months ended October 31, 2015 was primarily driven by increased adoption of InsuranceSuite and sales of newer products to both new and existing customers. Our license revenues are comprised of term license revenue and perpetual license revenue. Term license remains our predominant licensing model with perpetual comprising less than 1% in each period presented.

	Three Months Ended October 31,						Change		
	2015		2014		(\$)	(%)			
	Amount	% of license revenues	Amount	% of license revenues					
(in thousands, except percentages)									
License revenues:									
Term	\$ 32,652	101 %	\$ 28,787	100%	\$ 3,865		13%		
Perpetual	(312)	(1)%	33	—%	(345)		*		
Total license revenues	\$ 32,340	100 %	\$ 28,820	100%	\$ 3,520		12%		

\* Not meaningful

Term license revenues increased \$3.9 million during the three months ended October 31, 2015. The three months ended October 31, 2014 included \$1.4 million in revenue recognized from a customer contract which was previously deferred due to certain contractual terms. Excluding the impact of this contract, term license revenues increased by \$5.3 million as compared to the same period a year ago. The \$5.3 million increase was the result of \$6.0 million of revenues recognized related to current quarter orders from new and existing customers, offset by a net decrease of \$0.7 million in revenues due to timing of invoicing and corresponding due dates, early payments made by our customers, which resulted in recognizable revenues in the three months ended October 31, 2014 but not in the current period.

There were no perpetual license sales during the three months ended October 31, 2015. The \$0.3 million adjustment recorded in the current period relates to an on-going exchange rate application dispute with an existing contract. We expect perpetual license revenues to continue to account for a small percentage of our total license revenues. However, there may be volatility across quarters for perpetual license revenues, both in absolute terms and as a percentage of total license revenues due to the timing of sales of new perpetual licenses, the timing of annual billings, and the exercise of perpetual buyout rights in term licenses.

#### Maintenance Revenues

The \$1.5 million increase in maintenance revenues during the three months ended October 31, 2015 reflect our growing customer base and increased term license revenue. Since maintenance revenues are recognized on a ratable basis, the amounts recognized reflect the delayed impact of negative currency rate movements for maintenance billings which occurred in fiscal year 2015.

We expect that our maintenance revenues will continue to grow as term license revenues grow. In the current fiscal year we anticipate that maintenance revenues, since recognized on a ratable basis, will grow more slowly than term license revenues

due primarily to the delayed impact of negative currency rate movements that affected our maintenance billings in fiscal year 2015.

#### Services Revenues

Services revenues during the three months ended October 31, 2015 decreased \$2.5 million as compared to the same quarter a year ago. The three months ended October 31, 2014 included \$1.9 million in revenue recognized from a customer contract which was previously deferred due to certain contractual terms. Excluding the impact of this contract, service revenues decreased by \$0.6 million as compared to the same period a year ago. The \$0.6 million decrease in services revenues during the three months ended October 31, 2015 was due to the combination of our continued engagement with our system integrator partners, completion of projects, and delays in the inception of new projects. These effects were partially offset by increased utilization of our resources on new and existing projects.

We expect our services revenues to decrease as a percentage of total revenues in the current fiscal year as we continue to expand our network of third-party system integrators with whom our customers can contract for services related to our products, although these trends may not be evident in any given quarter as the mix of revenues may fluctuate.

#### Deferred Revenues

	As of		Change	
	October 31, 2015	July 31, 2015		
	Amount	Amount	(\$)	(%)
	(in thousands, except percentages)			
Deferred revenues:				
Deferred license revenues	\$ 15,022	\$ 13,558	\$ 1,464	11 %
Deferred maintenance revenues	26,671	32,365	(5,694)	(18)%
Deferred services revenues	7,938	6,643	1,295	19 %
Total deferred revenues	\$ 49,631	\$ 52,566	\$ (2,935)	(6)%

The \$1.5 million increase in deferred license revenues compared to the prior fiscal year end was primarily driven by \$0.8 million of license billings related to contracts executed during the three months ended October 31, 2015 and deferred due to certain contractual obligations not being met in the period, and a net increase of \$0.7 million related to billings from existing customer contracts that are being deferred due to invoice timing and certain license invoices being recognized ratably.

The \$5.7 million decrease in deferred maintenance revenues compared to the prior fiscal year end was primarily driven by revenues recognized from existing contracts in excess of new billings during the three months ended October 31, 2015. This decrease reflects the seasonal nature of the billing of maintenance revenues.

The \$1.3 million increase in deferred services revenues compared to the prior fiscal year end was primarily driven by services billings deferred due to certain contractual terms.

Our deferred revenues consist only of amounts that have been invoiced, but not yet recognized as revenues. As a result, deferred revenues and change in deferred revenues are incomplete measures of the strength of our business and are not necessarily indicative of our future performance.

#### Cost of Revenues and Gross Profit

Our cost of revenues and gross profit are variable and depend on the type of revenues earned in each period. Our cost of license revenues is primarily comprised of royalty fees paid to third parties and fulfillment services personnel costs. Our cost of maintenance revenues is comprised of compensation and benefit expenses for our technical support team, including stock-based compensation, and allocated overhead. Our cost of services revenues is primarily comprised of compensation and benefit expenses for our professional service employees and contractors, including stock-based awards, travel-related costs and allocated overhead.

We allocate overhead such as IT support, facility, and other administrative costs to all functional departments based on headcount. As such, general overhead expenses are reflected in cost of revenue and each functional operating expense category.

	Three Months Ended October 31,				Change		
	2015		2014		(\$)	(%)	
	Amount		Amount				
(in thousands, except percentages)							
<b>Cost of revenues:</b>							
License	\$	1,164	\$	1,082	\$	82	8 %
Maintenance		2,475		2,242		233	10 %
Services		31,531		32,447		(916)	(3)%
Total cost of revenues	\$	35,170	\$	35,771	\$	(601)	(2)%
<b>Includes stock-based awards of:</b>							
Cost of license revenues	\$	89	\$	49	\$	40	
Cost of maintenance revenues		339		277		62	
Cost of services revenues		4,363		3,513		850	
Total	\$	4,791	\$	3,839	\$	952	

The \$0.6 million decrease in cost of revenues during the three months ended October 31, 2015 was primarily driven by a decrease of \$3.0 million in third-party consultant costs and billable expenses, partially offset by an increase of \$1.3 million in compensation and benefit expenses, including stock-based awards, an increase of \$0.6 million in allocated overhead, an increase of \$0.5 million in recruiting, training and other general office expenses. The decrease in consultant costs and billable expenses was due to completion of a few large implementation projects and our continued partnership with system integrator partners to assist in the implementation of our products, resulting in lower utilization of third-party consultants. The increase in compensation and benefit expenses was primarily due to the issuance of equity awards to new and existing employees. The increases in allocated overhead costs and recruiting, training and general office expenses were due to an increase in professional service and technical support headcount. Our professional service and technical support headcount was 556 at October 31, 2015 compared with 515 at October 31, 2014.

	Three Months Ended October 31,				Change				
	2015		2014		(\$)	(%)			
	Amount	Margin %	Amount	Margin %					
(in thousands, except percentages)									
<b>Gross profit:</b>									
License	\$	31,176	96%	\$	27,738	96%	\$	3,438	12 %
Maintenance		11,538	82%		10,278	82%		1,260	12 %
Services		4,396	12%		5,947	15%		(1,551)	(26)%
Total gross profit	\$	47,110	57%	\$	43,963	55%	\$	3,147	7 %

Gross profit increased \$3.1 million during the three months ended October 31, 2015 primarily due to an increase in the mix of license and maintenance sales which yield a higher gross margin than our professional services. Professional services gross margin is lower in comparison to the same period a year ago with the continued engagement with our system integrator partners resulting in decreases in services revenue.

We expect our quarterly gross margin to vary in percentage terms as we experience changes in the mix between higher gross margin license revenues and lower gross margin service revenues.

#### Operating Expenses

Our operating expenses consist of research and development, sales and marketing and general and administrative expenses. The largest components of our operating expenses are compensation and benefit expenses for our employees, including stock-based awards, and, to a lesser extent, professional services costs, rent and facility costs.

**Three Months Ended October 31,**

	2015		2014		Change	
	Amount	% of total revenues	Amount	% of total revenues	(\$)	(%)
<b>(in thousands, except percentages)</b>						
<b>Operating expenses:</b>						
Research and development	\$ 25,672	31%	\$ 20,310	26%	\$ 5,362	26%
Sales and marketing	19,291	23%	17,529	22%	1,762	10%
General and administrative	11,110	14%	9,762	12%	1,348	14%
<b>Total operating expenses</b>	<b>\$ 56,073</b>	<b>68%</b>	<b>\$ 47,601</b>	<b>60%</b>	<b>\$ 8,472</b>	<b>18%</b>
<b>Includes stock-based compensation of:</b>						
Research and development	\$ 3,672		\$ 2,143		\$ 1,529	
Sales and marketing	3,430		2,987		443	
General and administrative	3,254		3,019		235	
<b>Total</b>	<b>\$ 10,356</b>		<b>\$ 8,149</b>		<b>\$ 2,207</b>	

The \$8.5 million increase in operating expenses during the three months ended October 31, 2015 was driven by an increase of \$6.9 million in compensation and benefit expenses, including stock-based awards, an increase of \$0.9 million in professional services, an increase of \$1.0 million in IT support, facility, and other administrative costs, and an increase of \$0.3 million in travel and marketing expenses. These increases in operating expenses were offset by \$0.6 million in overhead costs allocated to cost of revenues.

*Research and Development*

Our research and development expenses consist primarily of costs incurred for compensation and benefit expenses for our technical staff, including stock-based awards and allocated overhead, as well as professional services costs.

The \$5.4 million increase in research and development expenses during the three months ended October 31, 2015 was primarily due to an increase of \$4.1 million in compensation and benefit expenses, including stock-based awards, an increase of \$0.7 million in allocated overhead, and an increase of \$0.6 million in employee recruiting, training and travel expenses. The increase in compensation and benefit expenses was primarily due to an increase in headcount and the issuance of equity awards to new and existing employees. Increases in allocated overhead, recruiting, training and travel expenses were due to an increase in headcount. Our research and development headcount was 397 at October 31, 2015 compared with 337 at October 31, 2014.

We expect our research and development expenses to continue to increase in absolute dollars and as a percentage of total revenues, as we continue to dedicate substantial internal resources to develop, improve and expand the functionality of our solutions.

*Sales and Marketing*

Our sales and marketing expenses consist primarily of costs incurred for compensation and benefit expenses for our sales and marketing employees, including stock-based awards, and allocated overhead, as well as commission payments to our sales employees, sales travel expenses and professional services for marketing costs.

The \$1.8 million increase in sales and marketing expenses during the three months ended October 31, 2015 was primarily due to an increase of \$1.2 million in compensation and benefit expenses, including stock-based awards and commissions, an increase of \$0.3 million in allocated overhead, and an increase of \$0.3 million in recruiting and training expenses. The increase in compensation and benefit expenses was primarily due to an increase in headcount and the issuance of equity awards to new and existing employees. Increases in recruiting, training and travel expenses and allocated overhead were due to an increase in headcount. Our sales and marketing headcount was 242 at October 31, 2015 compared with 222 at October 31, 2014.

We expect our sales and marketing expenses to continue to increase in absolute dollars as we continue to increase our sales and marketing activities to support business growth.

*General and Administrative*

Our general and administrative expenses consist primarily of compensation and benefit expenses, including stock-based awards, as well as professional services and facility costs related to our executive, finance, human resources, information technology, corporate development and legal functions.

The \$1.3 million increase in general and administrative expenses during the three months ended October 31, 2015 was primarily due to increases in compensation and benefit expenses including stock-based awards, professional services costs, IT support, facility, and other administrative costs, net of allocations to other functional departments. The increase in general and administrative expenses was due to more initiatives and projects to support business growth and headcount increase. Our general and administrative headcount was 151 at October 31, 2015 compared with 123 at October 31, 2014.

We expect our general and administrative expense to continue to increase in absolute dollars due to increases in personnel costs and infrastructure costs to support the growth of our business.

**Other Income (Expense)**

	Three Months Ended October 31,		Change	
	2015	2014		
	Amount	Amount	(\$)	(%)
	(in thousands, except percentages)			
Interest income	\$ 696	\$ 512	\$ 184	36 %
Other income (expense), net	\$ 217	\$ (483)	\$ 700	(145)%

*Interest Income*

Interest income represents interest earned on our cash, cash equivalents and investments.

Interest income increased by \$0.2 million during the three months ended October 31, 2015, primarily due to higher yields on our investments.

*Other Income (Expense), Net*

Other income (expense), net consists primarily of fluctuations in foreign exchange rates on receivables and payables denominated in currencies other than the U.S. dollar.

We had net other income of \$0.2 million for the three months ended October 31, 2015 and a net other expense of \$0.5 million for the three months ended October 31, 2014, primarily from currency exchange gains and losses on transactions denominated in British Pound, Euro, Australia and Canadian Dollar, and Japanese Yen. The change was due to higher volatility in U.S. dollar exchange rates with these foreign currencies during the three months ended October 31, 2014 than the three months ended October 31, 2015.

**Provision for (Benefit from) Income Taxes**

We are subject to taxes in the United States as well as other tax jurisdictions or countries in which we conduct business. Earnings from our non-U.S. activities are subject to local country income tax and may be subject to current U.S. income tax.

	Three Months Ended October 31,		Change	
	2015	2014		
	Amount	Amount	(\$)	(%)
	(in thousands, except percentages)			
Benefit from income taxes	\$ (6,420)	\$ (612)	\$ (5,808)	*

\* Not meaningful

We recognized income tax benefits of \$6.4 million and \$0.6 million for the three months ended October 31, 2015 and 2014, respectively. The change was primarily due to a larger loss before income taxes for the three months ended October 31, 2015, as compared to the same period a year ago. The effective tax rate of 79.8% for the three months ended October 31, 2015 differs from the statutory U.S. federal income tax rate of 35% mainly due to permanent differences for foreign stock-based compensation, U.S. domestic production activity deduction, and the tax rate differences between the United States and foreign countries.

**Liquidity and Capital Resources**

As of October 31, 2015 and July 31, 2015, we had \$663.6 million and \$677.8 million of cash, cash equivalents and investments, respectively, and working capital of \$542.4 million and \$557.2 million, respectively.

Cash flows used in operating activities were \$10.9 million and \$5.5 million during the three months ended October 31, 2015 and 2014, respectively. We had capital expenditures of \$3.0 million and \$1.2 million for the three months ended October 31, 2015 and 2014, respectively. Our capital expenditures consisted of purchases of property and equipment, primarily consisting of computer hardware, software and leasehold improvements.

As of October 31, 2015, approximately \$14.7 million of our cash and cash equivalents were domiciled in foreign tax jurisdictions. While we have no plans to repatriate these funds to the United States in the short term, if we choose to do so, we would be required to accrue and pay additional taxes on any portion of the repatriation where no United States income tax had been previously provided.

Our cash flows from operations are significantly impacted by timing of invoicing and collections of accounts receivable, annual bonus payment, as well as payments of payroll and other taxes. We expect that we will continue to generate positive cash flows from operations on an annual basis, although this may fluctuate significantly on a quarterly basis. In particular, we typically use more cash during the first fiscal quarter ended October 31, as we generally pay cash bonuses to our employees for the prior fiscal year during that period and pay seasonally higher sales commissions from increased orders in our fourth fiscal quarter. As such, we believe that our existing cash and cash equivalents and sources of liquidity will be sufficient to fund our operations for at least the next 12 months. Our future capital requirements will depend on many factors, including our rate of revenue growth, the expansion of our sales and marketing activities and the timing and extent of our spending to support our research and development efforts and expansion into other markets. We also anticipate investing in, or acquiring complementary businesses, applications or technologies, which may require the use of significant cash resources and may require incremental financing.

#### **Cash Flows**

The following summary of cash flows for the periods indicated has been derived from our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q:

	<b>Three Months Ended October 31,</b>	
	<b>2015</b>	<b>2014</b>
	<small>(in thousands)</small>	
Net cash used in operating activities	\$ (10,890)	\$ (5,548)
Net cash used in investing activities	\$ (9,485)	\$ (12,440)
Net cash provided by (used in) financing activities	\$ 1,064	\$ (7,125)

#### **Cash Flows from Operating Activities**

Net cash used in operating activities increased by \$5.3 million for the three months ended October 31, 2015 when compared to the three months ended October 31, 2014. We used \$2.9 million more cash for working capital activity due to higher bonus and commission payments, timing of collections from customers and payments to vendors, and changes in deferred revenues as compared to the same three month period a year ago. We also experienced a \$2.4 million decrease in profitability after excluding the impact of non-cash charges such as deferred taxes, stock-based compensation, premiums on available for sale securities, depreciation and amortization expense, and other non-cash items.

#### **Cash Flows from Investing Activities**

Cash used in investing activities decreased by \$3.0 million for the three months ended October 31, 2015, primarily due to a \$4.7 million net decrease in cash used in purchases and sales of available-for-sale securities, as compared to the same period a year ago. This net decrease in cash used in investing activities was offset by a \$1.8 million increase in capital expenditures to purchase property and equipment.

#### **Cash Flows from Financing Activities**

Net cash provided by financing activities was \$1.1 million for the three months ended October 31, 2015, as compared to \$7.1 million net cash used during the same period a year ago. The increase of \$8.2 million in net cash provided by financing activities was due to \$7.7 million less withholding taxes paid for RSU releases during the three months ended October 31, 2015, as we switched from the net share settlement to the sell-to-cover tax withholding method in the fourth quarter of fiscal

year 2015 for a large majority of the employee population, and a \$0.5 million increase related to the indirect tax effect from the exercise of stock options and vesting of RSUs.

#### **Contractual Obligations**

Our primary contractual obligations are from operating leases for office space and letters of credit related to those leases. See Note 5 to the Condensed Consolidated Financial Statements for a discussion of our lease commitments and letters of credit.

Other than the lease commitments and letters of credit discussed in Note 5 to the Condensed Consolidated Financial Statements, we do not have commercial commitments under lines of credit, standby repurchase obligations or other such debt arrangements. We do not have any material non-cancellable purchase commitments as of October 31, 2015.

#### **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements or transactions with unconsolidated limited purpose entities, nor do we have any undisclosed material transactions or commitments involving related persons or entities.

### **ITEM 3. Quantitative and Qualitative Disclosures about Market Risk**

#### **Interest Rate Sensitivity**

Our exposure to market risk for changes in interest rates relates primarily to our cash, cash equivalents and investments as of October 31, 2015 and July 31, 2015. Our cash, cash equivalents and investments as of October 31, 2015 and July 31, 2015 were \$663.6 million and \$677.8 million, respectively, consisted primarily of cash, corporate bonds, U. S. agency debt securities, commercial paper, money market funds and municipal debt securities. Our primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of the interest rates in the United States. However, because of the short-term nature of our interest-bearing securities, a ten percent change in market interest rates would not be expected to have a material impact on our consolidated financial condition or results of operations.

#### **Foreign Currency Exchange Risk**

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Canadian dollar, Australian dollar, Euro, British Pound, Japanese Yen and Brazilian Real. The volatility of exchange rates depends on many factors that we cannot forecast with reliable accuracy. Although we believe our operating activities act as a natural hedge for a substantial portion of our foreign currency exposure because we typically collect revenues and incur costs in the currency in the location in which we provide our application, our contracts with our customers are long term in nature so it is difficult to predict if our operating activities will provide a natural hedge in the future. Additionally, changes in foreign currency exchange rates can affect our financial results due to transaction gains or losses related to revaluing certain current asset and current liability balances that are denominated in currencies other than the functional currency of the entities in which they are recorded. For example, for the three months ended October 31, 2015, we recorded a foreign currency gain of \$0.2 million as other income in our statement of operations due to favorable currency exchange rate movement during the fiscal quarter. However, for the fiscal year ended July 31, 2015, we experienced 8 to 22 percent fluctuations in exchange rates in Euro, British Pound, Australia, Canadian dollar and Japanese Yen and as a result, recorded a foreign currency loss of \$2.0 million as other expense in our statement of operations. We will continue to experience fluctuations in foreign currency exchange rates, and if a ten percent change in foreign exchange rates occurs in the future, a similar impact would result. As our international operations grow, we will continue to reassess our approach to manage our risk relating to fluctuations in currency rates.

#### **Fair Value of Financial Instruments**

We do not have material exposure to market risk with respect to investments in financial instruments, as our investments consist primarily of highly liquid investments purchased with a remaining maturity of two years or less. We do not use derivative financial instruments for speculative or trading purposes. However, this does not preclude our adoption of specific hedging strategies in the future.

### **ITEM 4. Controls and Procedures**



**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a- 15(e) and 15d- 15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our principal executive officer and principal financial officer have concluded that as of such date, our disclosure controls and procedures were effective.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Inherent Limitations of Internal Controls**

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

**PART II – OTHER INFORMATION****ITEM 1. Legal Proceedings**

From time to time we are involved in legal proceedings that arise in the ordinary course of our business. Any such proceedings, whether meritorious or not, could be time consuming, costly, and result in the diversion of significant operational resources or management time.

Although the outcomes of legal proceedings are inherently difficult to predict, we are not currently involved in any legal proceeding in which the outcome, in our judgment based on information currently available, is likely to have a material adverse effect on our business or financial position.

**ITEM 1A. Risk Factors**

*A description of the risks and uncertainties associated with our business is set forth below. You should carefully consider such risks and uncertainties, together with the other information contained in this report, and in our other public filings. If any of such risks and uncertainties actually occurs, our business, financial condition or operating results could differ materially from the plans, projections and other forward-looking statements included in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report and in our other public filings. In addition, if any of the following risks and uncertainties, or if any other risks and uncertainties, actually occurs, our business, financial condition or operating results could be harmed substantially, which could cause the market price of our stock to decline, perhaps significantly.*

***We may experience significant quarterly and annual fluctuations in our results of operations due to a number of factors.***

Our quarterly and annual results of operations may fluctuate significantly due to a variety of factors, many of which are outside of our control. This variability may lead to volatility in our stock price as research analysts and investors respond to quarterly fluctuations. In addition, comparing our results of operations on a period-to-period basis, particularly on a sequential quarterly basis, may not be meaningful. You should not rely on our past results as an indication of our future performance.

Factors that may affect our results of operations include:

- the timing of new orders and revenue recognition for new and prior year orders;
- seasonal buying patterns of our customers;
- our ability to increase sales to and renew agreements with our existing customers, particularly larger customers with substantial negotiating leverage, at comparable prices;
- our ability to renew existing contracts for multiple year terms versus annual automatic renewals;
- our ability to attract new customers in both domestic and international markets;
- structure of our licensing contracts, including fluctuations in perpetual licenses from period to period;
- our ability to enter into contracts on favorable terms, including terms related to price, payment timing and product delivery;
- volatility in the sales of our products and timing of the execution of new and renewal agreements within such periods;
- the impact of a recession or any other adverse global economic conditions on our business, including uncertainties that may cause a delay in entering into or a failure to enter into significant customer agreements;
- the lengthy and variable nature of our product implementation cycles;
- reductions in our customers' budgets for information technology purchases and delays in their purchasing cycles;
- erosion in services margins or significant increase or decrease in services revenues both in absolute terms and as a percentage of total revenues;
- timing of commissions expense related to large transactions;
- bonus expense based on the bonus attainment rate;
- the timing and cost of hiring personnel and of large expenses such as third-party professional services;
- stock-based compensation expenses, which vary along with changes to our stock price;
- fluctuations in foreign currency exchange rates;
- unanticipated trade sanctions and other restrictions that may impede our ability to sell internationally;
- general domestic and international economic conditions, in the insurance industry in particular; and

- future accounting pronouncements or changes in accounting rules or our accounting policies.

In addition, our revenue may fluctuate if our customers make an early payment of their annual license fees in advance of the invoice due date. This may cause an unexpected increase in revenues in one quarter which can reduce revenue growth rates in future periods.

The foregoing factors are difficult to forecast, and these, as well as other factors, could materially adversely affect our quarterly and annual results of operations. We believe our ability to adjust spending quickly enough to compensate for a revenues shortfall is very limited and our inability to do so could magnify the adverse impact of such revenues shortfall on our results of operations. If we fail to achieve our quarterly forecasts, if our forecasts fall below the expectations of research analysts or investors, or if our actual results fail to meet the expectations of research analysts or investors, our stock price may decline.

***Seasonal sales patterns and other variations related to our revenue recognition may cause significant fluctuations in our results of operations and cash flows and may prevent us from achieving our quarterly or annual forecasts, which may cause our stock price to decline.***

We sign a significantly higher percentage of software license orders in the second and fourth quarters of each fiscal year. We generally see increased orders in our second fiscal quarter, which is the quarter ended January 31, due to customer buying patterns. We also see increased orders in our fourth fiscal quarter due to efforts by our sales team to achieve annual incentives. As a result, a significantly higher percentage of our annual license revenues have historically been recognized during those quarters. Since a substantial majority of our license revenues recur annually under our multi-year contracts, we expect to continue to experience this seasonality effect in subsequent years.

Notwithstanding the fact that we generally see increased licensing orders in our second and fourth fiscal quarters, we expect to see additional quarterly revenue fluctuations that may, in some cases, mask the impact of these expected seasonal variations. Our quarterly growth in license revenues also may not match up to new orders we receive in a given quarter. This mismatch is primarily due to the following reasons:

- for the initial year of a multi-year term license, we generally recognize revenues when payment is due and payment may not be due until a subsequent fiscal quarter;
- we may enter into license agreements with future product delivery requirements or specified terms for product upgrades or functionality, which may require us to delay revenue recognition for the initial period;
- our term licenses may include payment terms that are modest at the outset and increase over time; and
- we may enter into license agreements with other contractual terms that may affect the timing of revenue recognition.

Our revenues may fluctuate versus comparable prior periods or prior quarters within the same fiscal year based on when new orders are executed in the quarter and the payment terms of each order. Additionally, our revenues may fluctuate if our customers make an early payment of their annual license fees in advance of the invoice due date. Our ability to renew existing contracts for multiple year terms versus annual automatic renewals may also impact revenue recognition.

We generally charge annual software license fees for our multi-year term licenses and price our licenses based on the amount of direct written premiums (“DWP”) that will be managed by our solutions. However, in certain circumstances, our customers desire the ability to purchase our products on a perpetual license basis, resulting in an acceleration of revenue recognition. Milestone payments in a perpetual license order also cause seasonal variations. Our perpetual license revenues are not consistent from period to period. In addition, a few of our multi-year term licenses provide the customer with the option to purchase a perpetual license at the end of the initial contract term, which we refer to as a perpetual buyout right. The mix of our contract terms for our licenses and the exercise of perpetual buyout rights at the end of the initial contract term by our customers may lead to variability in our results of operations. Increases in perpetual license sales and exercises of perpetual buyout rights by our customers may affect our ability to show consistent growth in license revenues in subsequent periods. Reductions in perpetual licenses in future periods could cause adverse period-to-period comparisons of our financial results.

In addition, because we price our products based on the amount of DWP that will be managed by our solutions, license revenues from each customer may fluctuate up or down based upon insurance policies sold by the customer in the preceding year. If we enter into a new territory, our revenue recognition pattern may change, depending on the contractual terms and local laws and regulations. Seasonal and other variations related to our revenue recognition may cause significant fluctuations in our results of operations and cash flows, may make it challenging for an investor to predict our performance on a quarterly basis and may prevent us from achieving our quarterly or annual forecasts or meeting or exceeding the expectations of research analysts or investors, which may cause our stock price to decline.

***We have relied and expect to continue to rely on orders from a relatively small number of customers in the P&C insurance industry for a substantial portion of our revenues, and the loss of any of these customers would significantly harm our business, results of operations and financial condition.***

Our revenues are dependent on orders from customers in the P&C insurance industry, which may be adversely affected by economic, environmental and world political conditions. A relatively small number of customers have historically accounted for a significant portion of our revenues. In fiscal years 2015, 2014 and 2013, our ten largest customers accounted for 31%, 35% and 33% of our revenues, respectively. While we expect this reliance to decrease over time, we expect that we will continue to depend upon a relatively small number of customers for a significant portion of our revenues for the foreseeable future. As a result, if we fail to successfully sell our products and services to one or more anticipated customers in any particular period or fail to identify additional potential customers or an anticipated customer purchases fewer of our products or services, defers or cancels orders, fails to renew its license agreements or terminates its relationship with us, our business, results of operations and financial condition would be harmed. Some of our orders are realized at the end of the quarter or are subject to delayed payment terms. As a result of this concentration and timing, if we are unable to complete one or more substantial sales or achieve any required performance or acceptance criteria in any given quarter, our quarterly results of operations may fluctuate significantly.

***Increases in services revenues as a percentage of total revenues or lower services margins could adversely affect our overall gross margins and profitability.***

Our services revenues were 40%, 45% and 46% of total revenues for each of fiscal years 2015, 2014 and 2013, respectively. Our services revenues produce lower gross margins than our license revenues. The gross margin of our services revenues was 12%, 13% and 16% for fiscal years 2015, 2014 and 2013, respectively, while the gross margin for license revenues was 97%, 97% and 99% for the respective periods. An increase in the percentage of total revenues represented by services revenues or lower services margins could reduce our overall gross margins and adversely affect our results of operations. These trends can be the result of several factors, some of which are outside of our control, including the rates we charge for our services and the utilization of our personnel, unexpected difficulty in projects which may require additional efforts without commensurate compensation and the extent to which system integrators provide services directly to customers. Any erosion in our services margins or any significant increase in services revenues as a percentage of total revenues would adversely affect our results of operations.

***Assertions by third parties of infringement or other violation by us of their intellectual property rights could result in significant costs and substantially harm our business and results of operations.***

The software industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding patents and other intellectual property rights. In particular, leading companies in the software industry own large numbers of patents, copyrights, trademarks and trade secrets, which they may use to assert claims against us. From time to time, third parties, including certain of these leading companies, may assert patent, copyright, trademark or other intellectual property claims against us, our customers and partners, and those from whom we license technology and intellectual property.

Although we believe that our products and services do not infringe upon the intellectual property rights of third parties, we cannot assure that third parties will not assert infringement or misappropriation claims against us with respect to current or future products or services, or that any such assertions will not require us to enter into royalty arrangements or result in costly litigation, or result in us being unable to use certain intellectual property. We cannot assure that we are not infringing or otherwise violating any third-party intellectual property rights. Infringement assertions from third parties may involve patent holding companies or other patent owners who have no relevant product revenues, and therefore our own issued and pending patents may provide little or no deterrence to these patent owners in bringing intellectual property rights claims against us.

If we are forced to defend against any infringement or misappropriation claims, whether they are with or without merit, are settled out of court, or are determined in our favor, we may be required to expend significant time and financial resources on the defense of such claims. Furthermore, an adverse outcome of a dispute may require us to pay damages, potentially including treble damages and attorneys' fees, if we are found to have willfully infringed a party's intellectual property; cease making, licensing or using our products or services that are alleged to infringe or misappropriate the intellectual property of others; expend additional development resources to redesign our products or services; enter into potentially unfavorable royalty or license agreements in order to obtain the right to use necessary technologies or works; and to indemnify our partners, customers, and other third parties. Any of these events could seriously harm our business, results of operations and financial condition.

***We may expand through acquisitions or partnerships with other companies, which may divert our management's attention and result in unexpected operating and technology integration difficulties, increased costs and dilution to our stockholders.***

Our business strategy includes the potential acquisitions of the shares or assets of companies with complementary software, technologies or businesses or alliances with such companies. Acquisitions and alliances may result in unforeseen operating difficulties and expenditures and may not result in the benefits anticipated by such corporate activity. In particular, we may fail to: assimilate or integrate the businesses, technologies, services, products, personnel or operations of the acquired companies; retain key personnel necessary to favorably execute the combined companies business plan; retain existing customers or sell acquired products to new customers. Acquisitions and alliances may also disrupt our ongoing business, divert our resources and require significant management attention that would otherwise be available for ongoing development of our current business. We also may be required to use a substantial amount of our cash or issue debt or equity securities to complete an acquisition or realize the potential of an alliance, which could deplete our cash reserves and/or dilute our existing stockholders. Following an acquisition or the establishment of an alliance offering new products, we may be required to defer the recognition of revenues that we receive from the sale of products that we acquired or that result from the alliance, or from the sale of a bundle of products that includes such new products, if we have not established vendor-specific objective evidence (“VSOE”) for the undelivered elements in the arrangement. In addition, our ability to maintain favorable pricing of new products may be challenging if we bundle such products with sales of existing products. A delay in the recognition of revenues from sales of acquired or alliance products, or reduced pricing due to bundled sales, may cause fluctuations in our quarterly financial results, may adversely affect our operating margins and may reduce the benefits of such acquisitions or alliances.

Additionally, competition within the software industry for acquisitions of businesses, technologies and assets has been, and may in the future continue to be, intense. As such, even if we are able to identify an acquisition that we would like to consummate, the target may be acquired by another strategic buyer or financial buyer such as a private equity firm, or we may otherwise not be able to complete the acquisition on commercially reasonable terms, if at all. Moreover, in addition to our failure to realize the anticipated benefits of any acquisition, including our revenues or return on investment assumptions, we may be exposed to unknown liabilities or impairment charges as a result of acquisitions we do complete.

***We face intense competition in our market, which could negatively impact our business, results of operations and financial condition and cause our market share to decline.***

The market for our core insurance system software is intensely competitive. We compete with legacy systems, many of which have been in operation for decades. Maintaining these legacy systems may be so time consuming and costly for our customers that they do not have adequate resources to devote to the purchase and implementation of our products. Our implementation cycle is lengthy, variable and requires the investment of significant time and expense by our customers. We also compete against technology consulting firms that offer software and systems or develop custom, proprietary products for the P&C insurance industry. These consulting firms generally have greater name recognition, larger sales and marketing budgets and greater resources than we do and may have pre-existing relationships with our potential customers, including relationships with, and access to, key decision makers within these organizations. Since sales of software products may be a small part of their business and they may be more focused on related services revenues, they may offer their software products at significantly reduced prices or under terms that we cannot match. The competitors we face in any sale may change depending, among other things, on the line of business purchasing the software, the application being sold, the geography in which we’re operating and the size of the insurance carrier to which we are selling. For example, we are more likely to face competition from small independent firms when addressing the needs of small insurers. These competitors compete on the basis of price, the time and cost required for software implementation, custom developments, or unique product features or functions. Outside of the United States, we are more likely to compete against vendors that may differentiate themselves based on local advantages in language, market knowledge and pre-built content applicable to that jurisdiction. We also compete with vendors of horizontal software products that may be customized to address needs of the P&C insurance industry.

We expect the intensity of competition to remain high in the future as existing companies obtain new capital, consolidate with other vendors or develop stronger capabilities or as new companies enter our markets. Such intense competition could result in increased pricing pressure, reduced profit margins, increased sales and marketing expenses, and failure to increase, or the loss of, market share, any of which could harm our business, results of operations, financial condition or future prospects. Our larger competitors may be able to devote greater resources to the development, promotion and sale of their products than we can devote to ours, which could allow them to respond more quickly than we can to new technologies and changes in customer needs leading to wider market acceptance. We may not be able to compete effectively and competitive pressures may prevent us from acquiring and maintaining the customer base necessary for us to increase our revenues and profitability.

Our current and potential competitors may also establish cooperative relationships among themselves or with third parties that may further enhance their resources. Current or potential competitors may be acquired by other vendors or third parties with greater available resources. As a result of such acquisitions, our current or potential competitors might be more able than we to adapt more quickly to new technologies and customer needs, devote greater resources to the promotion or sale of their products and services, initiate or withstand substantial price competition, or take advantage of other opportunities to more readily or develop and expand their product and service offerings more quickly. Additionally, they may hold larger portfolios of

patents and other intellectual property rights as a result of such acquisitions. If we are unable to compete effectively for a share of our market, our business, results of operations and financial condition could be materially and adversely affected.

***If our products or cloud-based services experience data security breaches, and there is unauthorized access to our customers' data, we may lose current or future customers and our reputation and business may be harmed.***

If our security measures are breached or unauthorized access to customer data is otherwise obtained, our products may be perceived as not being secure, customers may reduce the use of or stop using our products, and we may incur significant liabilities. Our software and cloud services involve the storage and transmission of data, and security breaches could result in the loss of this information, litigation, indemnity obligations and other liability. While we have taken steps to protect the confidential information that we have access to, including confidential information we may obtain through our customer support services or customer usage of our cloud-based services, our security measures could be breached. Because techniques used to obtain unauthorized access or sabotage systems change frequently and generally are not identified until they are launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Any or all of these issues could negatively impact our ability to attract new customers and increase engagement by existing customers, cause existing customers to elect to not renew their term licenses, or subject us to third-party lawsuits, regulatory fines or other action or liability, thereby adversely affecting our financial results. We use third-party technology and systems for a variety of reasons, including, without limitation, encryption and authentication technology, employee email, content delivery to customers, back-office support and other functions. Although we have developed systems and processes that are designed to protect customer information and prevent data loss and other security breaches, including systems and processes designed to reduce the impact of a security breach at a third-party vendor, such measures cannot provide absolute security.

***Privacy concerns could result in regulatory changes and impose additional costs and liabilities on us, limit our use of information, and adversely affect our business.***

Certain of our product solutions collect, process, store, and use transaction-level data aggregated across insurers using Guidewire's common data model. Personal privacy has become a significant issue in the United States, Europe, and many other countries where we operate. Many federal, state, and foreign legislatures and government agencies have imposed or are considering imposing restrictions and requirements about the collection, use, and disclosure of personal information. In the past we have relied on adherence to the U.S. Department of Commerce's Safe Harbor Privacy Principles and compliance with the U.S.-EU and U.S.-Swiss Safe Harbor Frameworks as agreed to and set forth by the U.S. Department of Commerce, and the European Union and Switzerland, which established a means for legitimating the transfer of personally identifiable information, or PII, by U.S. companies doing business in Europe from the European Economic Area to the United States. As a result of the October 6, 2015 European Union Court of Justice (the "ECJ"), opinion in Case C-362/14 (Schrems v. Data Protection Commissioner) regarding the adequacy of the U.S.-EU Safe Harbor Framework, the U.S. - EU Safe Harbor Framework is no longer deemed to be a valid method of compliance with restrictions set forth in the Data Protection Directive (and member states' implementations thereof) regarding the transfer of data outside of the European Economic Area. In light of the ECJ opinion in Case C-362/14, we anticipate engaging in efforts to legitimize data transfers from the European Economic Area. For a limited number of our products, we may be unsuccessful in establishing legitimate means of transferring data from the European Economic Area, and we may experience hesitancy, reluctance, or refusal by European or multi-national customers to continue to use those limited products or services due to the potential risk exposure to such customers as a result of the ECJ ruling. Additionally, we and our customers could be at risk of enforcement actions taken by an EU data protection authority in relation to the use of those limited products, if they are used prior to such time as we ensure that all data transfers to us from the European Economic Area are legitimized. We may find it necessary to establish systems to maintain EU-origin data in the European Economic Area, which may involve substantial expense and distraction from other aspects of our business.

Changes to laws or regulations affecting privacy could impose additional costs and liabilities on us and could limit our use of such information to add value for customers. If we were required to change our business activities or revise or eliminate services, or to implement burdensome compliance measures, our business and results of operations could be harmed. In addition, we may be subject to fines, penalties, and potential litigation if we fail to comply with applicable privacy regulations. The costs of compliance with and other burdens imposed by privacy-related laws, regulations and standards may limit the use and adoption of our product solutions and reduce overall demand.

Furthermore, concerns regarding data privacy may cause our customers' customers to resist providing the data necessary to allow our customers to use our product solutions effectively. Even the perception that the privacy of personal information is not satisfactorily protected or does not meet regulatory requirements could inhibit sales of our products or services, and could limit adoption of our solutions.

***Our customers may defer or forego purchases of our products or services in the event of weakened global economic conditions and industry consolidation.***

General worldwide economic conditions continue to remain unstable. Prolonged economic uncertainties or downturns could harm our business operations or financial results. These conditions make it difficult for our customers and us to forecast and plan future business activities accurately, and they could cause our customers to reevaluate their decision to purchase our products, which could delay and lengthen our sales cycles or result in cancellations of planned purchases. Furthermore, during challenging economic times our customers may face issues in gaining timely access to sufficient credit, which could result in an impairment of their ability to make timely payments to us. If that were to occur, we may be required to record an allowance for doubtful accounts, which would adversely affect our financial results. A substantial downturn in the P&C insurance industry may cause firms to react to worsening conditions by reducing their capital expenditures in general or by specifically reducing their spending on information technology. P&C insurance companies may delay or cancel information technology projects or seek to lower their costs by renegotiating vendor contracts. Negative or worsening conditions in the general economy both in the United States and abroad, including conditions resulting from financial and credit market fluctuations, could cause a decrease in corporate spending on enterprise software in general, and in the insurance industry specifically, and negatively affect the rate of growth of our business.

The increased pace of consolidation in the P&C insurance industry may result in reduced overall spending on our products. Acquisitions of customers can delay or cancel sales cycles and because we cannot predict the timing or duration of such acquisitions, our results of operations could be materially impacted by the change in the industry.

***Factors outside of our control including but not limited to natural catastrophes and terrorism may adversely impact the P&C insurance industry, preventing us from expanding or maintaining our existing customer base and increasing our revenues.***

Our customers are P&C insurance carriers which have experienced, and will likely experience in the future, losses from catastrophes or terrorism that may adversely impact their businesses. Catastrophes can be caused by various events, including, amongst others, hurricanes, tsunamis, floods, windstorms, earthquakes, hail, tornadoes, explosions, severe weather and fires. Global warming trends are contributing to an increase in erratic weather patterns globally and intensifying the impact of certain types of catastrophes. Moreover, acts of terrorism or war could cause disruptions in our or our customers' businesses or the economy as a whole. The risks associated with natural catastrophes and terrorism are inherently unpredictable, and it is difficult to predict the timing of such events or estimate the amount of loss they will generate. Future events may adversely impact our current or potential customers, which may prevent us from maintaining or expanding our customer base and increasing our revenues as such events may cause customers to postpone purchases of new products and professional service engagements or discontinue projects.

***Our sales and implementation cycles are lengthy and variable, depend upon factors outside our control, and could cause us to expend significant time and resources prior to generating revenues.***

The typical sales cycle for our products and services is lengthy and unpredictable, requires pre-purchase evaluation by a significant number of employees in our customers' organizations, and often involves a significant operational decision by our customers. Our sales efforts involve educating our customers about the use and benefits of our products, including the technical capabilities of our products and the potential cost savings achievable by organizations deploying our products. Customers typically undertake a significant evaluation process, which frequently involves not only our products, but also those of our competitors and can result in a lengthy sales cycle. We spend substantial time, effort and money in our sales efforts without any assurance that our efforts will produce any sales. Even if we succeed at completing a sale, we may be unable to predict the size of an initial license until very late in the sales cycle. In addition, we sometimes commit to include specific functions in our base product offering at the request of a customer or group of customers and are unable to recognize license revenues until the specific functions have been added to our products. Providing this additional functionality may be time consuming and may involve factors that are outside of our control.

The implementation and testing of our products by our customers typically lasts 6 to 24 months or longer and unexpected implementation delays and difficulties can occur. Implementing our products typically involves integration with our customers' systems, as well as adding their data to our platform. This can be complex, time consuming and expensive for our customers and can result in delays in the implementation and deployment of our products. Failing to meet the expectations of our customers for the implementation of our products could result in a loss of customers and negative publicity regarding us and our products and services. Such failure could result from our product capabilities or service engagements by us, our system integrator partners or our customers' IT employees, the latter two of which are beyond our direct control. The consequences could include, and have included: monetary credits for current or future service engagements, reduced fees for additional product sales, and a customer's refusal to pay their contractually-obligated license, maintenance or service fees. In addition, time-consuming implementations may also increase the amount of services personnel we must allocate to each customer, thereby increasing our costs and adversely affecting our business, results of operations and financial condition.

The lengthy and variable sales and implementation cycles may have a negative impact on the timing of our revenues, causing our revenues and results of operations to vary significantly from period to period.

***If we are unable to continue the successful development of our global direct sales force and the expansion of our relationships with our strategic partners, sales of our products and services will suffer and our growth could be slower than we project.***

We believe that our future growth will depend on the continued development of our global direct sales force and their ability to obtain new customers, particularly large P&C insurance carriers, and to manage our existing customer base. Our ability to achieve significant growth in revenues in the future will depend, in large part, on our success in recruiting, training and retaining a sufficient number of global direct sales personnel. New hires require significant training and may, in some cases, take more than a year before becoming productive, if at all. If we are unable to hire and develop sufficient numbers of productive global direct sales personnel, sales of our products and services will suffer and our growth will be impeded.

We believe our future growth also will depend on the expansion of successful relationships with system integrators. Our system integrators as channel partners help us reach additional customers. Our growth in revenues, particularly in international markets, will be influenced by the development and maintenance of this indirect sales channel which, in some cases, may require the establishment of effective relationships with regional systems integrators. Although we have established relationships with some of the leading system integrators, our products and services may compete directly against products and services that such leading system integrators support or market, and in the case of Accenture, own. We are unable to control the quantity or quality of resources that our system integrator partners commit to implementing our products, or the quality or timeliness of such implementation. If our partners do not commit sufficient or qualified resources to these activities, our customers will be less satisfied, be less supportive with references, or may require the investment of our resources at discounted rates. These, and other failures by our partners to successfully implement our products, will have an adverse effect on our business and our results of operations could fail to grow in line with our projections.

***Our large customers have substantial negotiating leverage, which may require that we agree to terms and conditions that result in increased cost of sales, decreased revenues and lower average selling prices and gross margins, all of which could harm our operating results.***

Some of our customers include the largest P&C insurance carriers. These customers have significant bargaining power when negotiating new licenses or renewals of existing licenses, and have the ability to buy similar products from other vendors or develop such systems internally. These customers have and may continue to seek advantageous pricing and other commercial terms and may require us to develop additional features in the products we sell to them. We have and may continue to be required to reduce the average selling price, or increase the average cost, of our products in response to these pressures. If we are unable to avoid reducing our average selling prices or increase our average costs, our results of operations could be harmed.

***Because we derive a significant majority of our revenues and cash flows from InsuranceSuite or its component applications - ClaimCenter, PolicyCenter, and BillingCenter products and related services - failure of any of these products or services to satisfy customer demands or to achieve increased market acceptance would harm our business, results of operations, financial condition and growth prospects.***

We derive a significant majority of our revenues and cash flows from software licenses, support and services related to our InsuranceSuite product or its individual component applications: ClaimCenter, PolicyCenter and BillingCenter. We expect to continue to derive a substantial portion of our revenues from these sources. As such, increased market acceptance of these products is critical to our continued growth and success. Demand for our products is affected by a number of factors, some of which are beyond our control, including the successful implementation of our products, the timing of development and release of new products by us and our competitors, technological advances which reduce the appeal of our products, and the growth or contraction in the worldwide market for technological solutions for the P&C insurance industry. If we are unable to continue to meet customer demands, to achieve and maintain a technological advantage over competitors, or to achieve more widespread market acceptance of our products, our business, results of operations, financial condition and growth prospects will be materially and adversely affected.

***Our business depends on customers renewing and expanding their license and maintenance contracts for our products. A decline in our customer renewals and expansions could harm our future results of operations.***

Our customers have no obligation to renew their term licenses after their license period expires, and these licenses may not be renewed on the same or more favorable terms. Moreover, under certain circumstances, our customers have the right to cancel their license agreements before they expire. We have limited historical data with respect to rates of customer license renewals, upgrades and expansions so we may not accurately predict future trends in customer renewals. In addition, our term



and perpetual license customers have no obligation to renew their maintenance arrangements after the expiration of the initial contractual period. Our customers' renewal rates may fluctuate or decline because of several factors, including their satisfaction or dissatisfaction with our products and services, the prices of our products and services, the prices of products and services offered by our competitors or reductions in our customers' spending levels due to the macroeconomic environment or other factors. In addition, in some cases, our customers have a right to exercise a perpetual buyout of their term licenses at the end of the initial contract term. If our customers do not renew their term licenses for our solutions or renew on less favorable terms, our revenues may decline or grow more slowly than expected and our profitability may be harmed.

***If we are unable to develop, introduce and market new and enhanced versions of our products, we may be put at a competitive disadvantage.***

Our success depends on our continued ability to develop, introduce and market new and enhanced versions of our products to meet evolving customer requirements. Because our products are complex and require rigorous testing, development cycles can be lengthy, taking us multiple years to develop and introduce new products or provide updates to our existing products. Additionally, market conditions may dictate that we change the technology platform underlying our existing products or that new products be developed on different technology platforms, potentially adding material time and expense to our development cycles. The nature of these development cycles may cause us to experience delays between the time we incur expenses associated with research and development and the time we generate revenues, if any, from such expenses.

If we fail to develop new products or enhancements to our existing products, our business could be adversely affected, especially if our competitors are able to introduce products with enhanced functionality. It is critical to our success for us to anticipate changes in technology, industry standards and customer requirements and to successfully introduce new, enhanced and competitive products to meet our customers' and prospective customers' needs on a timely basis. We have invested and intend to increase investments in research and development to meet these challenges. Revenues may not be sufficient to support the future product development that is required for us to remain competitive. If we fail to develop products in a timely manner that are competitive in technology and price or develop products that fail to meet customer demands, our market share will decline and our business and results of operations could be harmed.

***Real or perceived errors or failures in our products or implementation services may affect our reputation, cause us to lose customers and reduce sales which may harm our business and results of operations and subject us to liability for breach of warranty claims.***

Because we offer complex products, undetected errors or failures may exist or occur, especially when products are first introduced or when new versions are released. Our products are often installed and used in large-scale computing environments with different operating systems, system management software and equipment and networking configurations, which may cause errors or failures in our products or may expose undetected errors, failures or bugs in our products. Despite testing by us, we may not identify all errors, failures or bugs in new products or releases until after commencement of commercial sales or installation. In the past, we have discovered software errors, failures and bugs in some of our product offerings after their introduction.

We provide our customers with upfront estimates regarding the duration, resources and costs associated with the implementation of our products. Failure to meet these upfront estimates and the expectations of our customers could result from our product capabilities or service engagements by us, our system integrator partners or our customers' IT employees, the latter two of which are beyond our direct control. The consequences could include, and have included: monetary credits for current or future service engagements, reduced fees for additional product sales, and a customer's refusal to pay their contractually-obligated license, maintenance or service fees. In addition, time-consuming implementations may also increase the amount of services personnel we must allocate to each customer, thereby increasing our costs and adversely affecting our business, results of operations and financial condition.

The license and support of our software creates the risk of significant liability claims against us. Our license agreements with our customers contain provisions designed to limit our exposure to potential liability claims. It is possible, however, that the limitation of liability provisions contained in such license agreements may not be enforced as a result of international, federal, state and local laws or ordinances or unfavorable judicial decisions. Breach of warranty or damage liability, or injunctive relief resulting from such claims, could harm our results of operations and financial condition.

***Failure to protect our intellectual property could substantially harm our business and results of operations.***

Our success depends in part on our ability to enforce and defend our intellectual property rights. We rely upon a combination of trademark, trade secret, copyright, patent and unfair competition laws, as well as license agreements and other contractual provisions, to do so.

We have filed, and may in the future file, patent applications related to certain of our innovations. We do not know whether those patent applications will result in the issuance of a patent or whether the examination process will require us to narrow our claims. In addition, we may not receive competitive advantages from the rights granted under our patents and other intellectual property. Our existing patents and any patents granted to us or that we otherwise acquire in the future, may be contested, circumvented or invalidated, and we may not be able to prevent third parties from infringing these patents. Therefore, the extent of the protection afforded by these patents cannot be predicted with certainty. In addition, given the costs, effort, risks and downside of obtaining patent protection, including the requirement to ultimately disclose the invention to the public, we may choose not to seek patent protection for certain innovations; however, such patent protection could later prove to be important to our business.

We also rely on several registered and unregistered trademarks to protect our brand. Nevertheless, competitors may adopt service names similar to ours, or purchase our trademarks and confusingly similar terms as keywords in Internet search engine advertising programs, thereby impeding our ability to build brand identity and possibly leading to confusion in the marketplace. In addition, there could be potential trade name or trademark infringement claims brought by owners of other registered trademarks or trademarks that incorporate variations of our trademarks. Any claims or customer confusion related to our trademarks could damage our reputation and brand and substantially harm our business and results of operations.

We attempt to protect our intellectual property, technology, and confidential information by generally requiring our employees and consultants to enter into confidentiality and assignment of inventions agreements and third parties to enter into nondisclosure agreements, all of which offer only limited protection. These agreements may not effectively prevent unauthorized use or disclosure of our confidential information, intellectual property or technology and may not provide an adequate remedy in the event of unauthorized use or disclosure of our confidential information, intellectual property or technology. Despite our efforts to protect our confidential information, intellectual property, and technology, unauthorized third parties may gain access to our confidential proprietary information, develop and market products or services similar to ours, or use trademarks similar to ours, any of which could materially harm our business and results of operations. In addition, others may independently discover our trade secrets and confidential information, and in such cases, we could not assert any trade secret rights against such parties. Existing U.S. federal, state and international intellectual property laws offer only limited protection. The laws of some foreign countries do not protect our intellectual property rights to as great an extent as the laws of the United States, and many foreign countries do not enforce these laws as diligently as governmental agencies and private parties in the United States. Moreover, policing our intellectual property rights is difficult, costly and may not always be effective.

From time to time, legal action by us may be necessary to enforce our patents and other intellectual property rights, to protect our trade secrets, to determine the validity and scope of the intellectual property rights of others or to defend against claims of infringement or invalidity. Such litigation could result in substantial costs and diversion of resources and could negatively affect our business, reputation, results of operations and financial condition. If we are unable to protect our technology and to adequately maintain and protect our intellectual property rights, we may find ourselves at a competitive disadvantage to others who need not incur the additional expense, time and effort required to create the innovative products that have enabled us to be successful to date.

***We may be obligated to disclose our proprietary source code to our customers, which may limit our ability to protect our intellectual property and could reduce the renewals of our support and maintenance services.***

Our software license agreements typically contain provisions permitting the customer to become a party to, or a beneficiary of, a source code escrow agreement under which we place the proprietary source code for our products in escrow with a third party. Under these escrow agreements, the source code to the applicable product may be released to the customer, typically for its use to maintain, modify and enhance the product, upon the occurrence of specified events, such as our filing for bankruptcy, discontinuance of our maintenance services and breaching our representations, warranties or covenants of our agreements with our customers. Additionally, in some cases, customers have the right to request access to our source code upon demand. Some of our customers have obtained the source code for certain of our products by exercising this right, and others may do so in the future.

Disclosing the content of our source code may limit the intellectual property protection we can obtain or maintain for that source code or the products containing that source code and may facilitate intellectual property infringement claims against us. It also could permit a customer to which a product's source code is disclosed to support and maintain that software product without being required to purchase our support or maintenance services. Each of these could harm our business, results of operations and financial condition.

***We and our customers rely on technology and intellectual property of third parties, the loss of which could limit the functionality of our products and disrupt our business.***

We use technology and intellectual property licensed from unaffiliated third parties in certain of our products, and we may license additional third-party technology and intellectual property in the future. Any errors or defects in this third-party technology and intellectual property could result in errors that could harm our brand and business. In addition, licensed technology and intellectual property may not continue to be available on commercially reasonable terms, or at all. The loss of the right to license and distribute this third-party technology could limit the functionality of our products and might require us to redesign our products.

***Some of our services and technologies may use “open source” software, which may restrict how we use or distribute our services or require that we release the source code of certain products subject to those licenses.***

Some of our services and technologies may incorporate software licensed under so-called “open source” licenses, including, but not limited to, the GNU General Public License and the GNU Lesser General Public License. In addition to risks related to license requirements, usage of open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or controls on origin of the software. Additionally, open source licenses typically require that source code subject to the license be made available to the public and that any modifications or derivative works to open source software continue to be licensed under open source licenses. These open source licenses typically mandate that proprietary software, when combined in specific ways with open source software, become subject to the open source license. If we combine our proprietary software in such ways with open source software, we could be required to release the source code of our proprietary software.

We take steps to ensure that our proprietary software is not combined with, and does not incorporate, open source software in ways that would require our proprietary software to be subject to an open source license. However, few courts have interpreted open source licenses, and the manner in which these licenses may be interpreted and enforced is therefore subject to some uncertainty. Additionally, we rely on multiple software programmers to design our proprietary technologies, and although we take steps to prevent our programmers from including open source software in the technologies and software code that they design, write and modify, we do not exercise complete control over the development efforts of our programmers and we cannot be certain that our programmers have not incorporated open source software into our proprietary products and technologies or that they will not do so in the future. In the event that portions of our proprietary technology are determined to be subject to an open source license, we could be required to publicly release the affected portions of our source code, re-engineer all or a portion of our technologies, or otherwise be limited in the licensing of our technologies, each of which could reduce or eliminate the value of our services and technologies and materially and adversely affect our business, results of operations and prospects.

***Incorrect or improper use of our products or our failure to properly train customers on how to utilize our products could result in customer dissatisfaction and negatively affect our business, results of operations, financial condition and growth prospects.***

Our products are complex and are deployed in a wide variety of network environments. The proper use of our products requires training of the customer. If our products are not used correctly or as intended, inadequate performance may result. Our products may also be intentionally misused or abused by customers or their employees or third parties who are able to access or use our products. Because our customers rely on our products, services and maintenance support to manage a wide range of operations, the incorrect or improper use of our products, our failure to properly train customers on how to efficiently and effectively use our products, or our failure to properly provide maintenance services to our customers may result in negative publicity or legal claims against us. Also, as we continue to expand our customer base, any failure by us to properly provide these services will likely result in lost opportunities for follow-on sales of our products and services.

In addition, if there is substantial turnover of customer personnel responsible for use of our products, or if customer personnel are not well trained in the use of our products, customers may defer the deployment of our products, may deploy them in a more limited manner than originally anticipated or may not deploy them at all. Further, if there is substantial turnover of the customer personnel responsible for use of our products, our ability to make additional sales may be substantially limited.

***Our ability to sell our products is highly dependent on the quality of our professional services and technical support services and the support of our system integration providers, and the failure of us or our system integration providers to offer high-quality professional services or technical support services could damage our reputation and adversely affect our ability to sell our products and services to new customers and renew our licenses to existing customers.***

If we or our system integration providers do not effectively assist our customers in deploying our products, succeed in helping our customers quickly resolve post-deployment issues, and provide effective ongoing support, our ability to sell additional products and services to existing customers would be adversely affected and our reputation with potential customers could be damaged. Once our products are deployed and integrated with our customers’ existing information technology

investments and data, our customers may depend on our technical support services and/or the support of system integrators or internal resources to resolve any issues relating to our products. High-quality support is critical for the continued successful marketing and sale of our products. In addition, as we continue to expand our operations internationally, our support organization will face additional challenges, including those associated with delivering support, training and documentation in languages other than English. Many enterprise customers require higher levels of support than smaller customers. If we fail to meet the requirements of our larger customers, it may be more difficult to increase our penetration with larger customers, a key group for the growth of our revenues and profitability. As we rely more on system integrators to provide deployment and on-going services, our ability to ensure a high level of quality in addressing customer issues is diminished. Our failure to maintain high-quality implementation and support services, or to ensure that system integrators provide the same, could have a material adverse effect on our business, results of operations, financial condition and growth prospects.

***If we are unable to retain our personnel and hire and integrate additional skilled personnel, we may be unable to achieve our goals and our business will suffer.***

Our future success depends upon our ability to continue to attract, train, integrate and retain highly skilled employees, particularly our management team, sales and marketing personnel, professional services personnel and software engineers. Our inability to attract and retain qualified personnel, or delays in hiring required personnel, may seriously harm our business, results of operations and financial condition.

Each of our executive officers and other key employees could terminate his or her relationship with us at any time. The loss of any member of our senior management team might significantly delay or prevent the achievement of our business or development objectives and could materially harm our business. In addition, a number of our senior management personnel are substantially vested in their stock option grants or other equity compensation. While we periodically grant additional equity awards to management personnel and other key employees to provide additional incentives to remain employed by us, employees may be more likely to leave us if a significant portion of their equity compensation is fully vested, especially if the shares underlying the equity awards have significantly appreciated in value.

We face competition for qualified individuals, who are in high demand, from numerous software and other technology companies. Competition for qualified personnel is particularly intense in the San Francisco Bay Area, where our headquarters are located. Often, significant amounts of time and resources are required to train technical, sales and other personnel. We may incur significant costs to attract and retain them, and we may lose new employees to our competitors or other technology companies before we realize the benefit of our investment in recruiting and training them. Also, to the extent we hire personnel from competitors, we may be subject to allegations that they have been improperly solicited or divulged proprietary or other confidential information. We have a limited number of sales people and the loss of several sales people within a short period of time could have a negative impact on our sales efforts. We may be unable to attract and retain suitably qualified individuals who are capable of meeting our growing technical, operational and managerial requirements, or we may be required to pay increased compensation in order to do so.

Our ability to expand geographically depends, in large part, on our ability to attract, retain and integrate both leaders for the local business and people with the appropriate skills. Similarly, our profitability depends on our ability to effectively utilize personnel with the right mix of skills and experience to perform services for our clients, including our ability to transition employees to new assignments on a timely basis. If we are unable to effectively deploy our employees globally on a timely basis to fulfill the needs of our clients, our reputation could suffer and our ability to attract new clients may be harmed.

Because of the technical nature of our products and services and the dynamic market in which we compete, any failure to attract, integrate and retain qualified direct sales, professional services and product development personnel, as well as our contract workers, could harm our ability to generate sales or successfully develop new products, customer and consulting services and enhancements of existing products.

***Failure to manage our expanding operations effectively could harm our business.***

We have recently experienced rapid growth and expect to continue to expand our operations, among other factors, in the number of employees and in the locations and scope of our international operations. This expansion has placed, and will continue to place, a significant strain on our operational and financial resources and our personnel. To manage our anticipated future operational expansion effectively, we must continue to maintain and may need to enhance our information technology infrastructure, financial and accounting systems and controls and manage expanded operations and employees in geographically distributed locations. Our growth could require significant capital expenditures and may divert financial resources from other projects, such as the development of new products. If we increase the size of our organization without experiencing an increase in sales of our products and services, we will experience reductions in our gross and operating margins and net income. If we are unable to effectively manage our expanding operations, our expenses may increase more than expected, our revenues could decline or grow more slowly than expected and we may be unable to implement our business strategy.

***Our international sales and operations subject us to additional risks that can adversely affect our business, results of operations and financial condition.***

We sell our products and services to customers located outside the United States and Canada, and we are continuing to expand our international operations as part of our growth strategy. In fiscal years 2015, 2014 and 2013, 35%, 31% and 28% of our revenues, respectively, were derived from outside of the United States and Canada. Our current international operations and our plans to expand our international operations subject us to a variety of risks, including:

- increased management, travel, infrastructure and legal compliance costs associated with having multiple international operations;
- unique terms and conditions in contract negotiations imposed by customers in foreign countries;
- longer payment cycles and difficulties in enforcing contracts and collecting accounts receivable;
- the need to localize our products and licensing programs for international customers;
- lack of familiarity with and unexpected changes in foreign regulatory requirements;
- increased exposure to fluctuations in currency exchange rates;
- the burdens and costs of complying with a wide variety of foreign laws and legal standards;
- compliance with the U.S. Foreign Corrupt Practices Act of 1977, as amended ("FCPA"), the U.K. Bribery Act and other anti-corruption regulations, particularly in emerging market countries;
- compliance by international staff with accounting practices generally accepted in the United States, including adherence to our accounting policies and internal controls;
- import and export license requirements, tariffs, taxes and other trade barriers;
- increased financial accounting and reporting burdens and complexities;
- weaker protection of intellectual property rights in some countries;
- multiple and possibly overlapping tax regimes;
- government sanctions that may interfere with our ability to sell into particular countries, such as Russia; and
- political, social and economic instability abroad, terrorist attacks and security concerns in general.

As we continue to expand our business globally, our success will depend, in large part, on our ability to anticipate and effectively manage these and other risks associated with our international operations. Any of these risks could harm our international operations and reduce our international sales, adversely affecting our business, results of operations, financial condition and growth prospects.

***Our revenues, results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Canadian dollar, Australian dollar, Euro, British Pound, Japanese Yen and Brazilian Real.***

The volatility of exchange rates depends on many factors that we cannot forecast with reliable accuracy. Although we believe our operating activities act as a natural hedge for a substantial portion of our foreign currency exposure at the cash flow or operating income level because we typically collect revenues and incur costs in the currency in the location in which we provide our application, our contracts with our customers are long term in nature so it is difficult to predict if our operating activities will provide a natural hedge in the future. Changes in foreign currency exchange rates can affect our revenues or financial results due to transaction gains or losses related to revaluing certain current asset and liability balances that are denominated in currencies other than the functional currency of the entities in which they are recorded. Moreover, significant and unforeseen changes in foreign currency exchange rates may cause us to fail to achieve our stated projections for revenue and operating income, which could have an adverse effect on our stock price. We will continue to experience fluctuations in foreign currency exchange rates, which, if material, may harm our revenues or results of operations.

***The nature of our business requires the application of complex revenue and expense recognition rules that require management to make estimates and assumptions. Additionally, the current legislative and regulatory environment affecting U.S. Generally Accepted Accounting Principles ("GAAP") is uncertain and significant changes in current principles could affect our financial statements going forward.***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets, liabilities, equity, revenues and expenses that are not readily apparent from other sources.

While we believe that our financial statements have been prepared in accordance with accounting principles generally accepted in the United States, we cannot predict the impact of future changes to accounting principles or our accounting policies on our financial statements going forward. In addition, were we to change our critical accounting estimates, including the timing of recognition of license revenue and other revenue sources, our reported revenues and results of operations could be significantly impacted.

The accounting rules and regulations that we must comply with are complex. Recent actions and public comments from the Financial Accounting Standards Board (the "FASB") and the Securities and Exchange Commission have focused on the integrity of financial reporting. In addition, many companies' accounting policies are being subject to heightened scrutiny by regulators and the public. Further, the accounting rules and regulations are continually changing in ways that could materially impact our financial statements.

The FASB issued new accounting guidance on revenue recognition that becomes effective for us beginning August 1, 2018. The standard permits the use of either the retrospective or cumulative effect transition method. We have not yet selected a transition method. While we continue to evaluate the impact this guidance will have on our financial condition and results of operations, any change in how we recognize revenues can have a significant impact on our quarterly or annual financial results from operations. In order to reduce the risk of financial statement volatility, we will likely need to revise how we license and deliver our software to customers. If we are unsuccessful in adapting our business to the requirements of the new revenue standard, then we may experience greater volatility in our quarterly and annual results, which may cause our stock price to decline. In addition to greater volatility, the application of this new standard may result in the exclusion of licensing revenues from contracts in effect prior to the adoption date, which, despite no change in associated cash flows, could have a material adverse effect on our recognized revenues and net income.

***We incur increased costs as a result of operating as a public company, and our management is required to devote substantial time to compliance initiatives.***

As a public company, we incur legal, accounting and other expenses that we did not incur as a private company. In addition, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act"), as well as rules subsequently implemented by the Securities and Exchange Commission ("SEC") and the New York Stock Exchange, impose additional requirements on public companies, including specific corporate governance practices. We are required to comply with Section 404 of the Sarbanes-Oxley Act and we have incurred costs to implement additional internal controls as well as to obtain an independent auditors report on our internal control over financial reporting. Additionally, the listing requirements of the New York Stock Exchange require that we satisfy numerous corporate governance requirements. Our management and other personnel will continue to devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations increase our legal, accounting and financial compliance costs and make some activities more time-consuming and costly. These rules and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers.

***If we fail to maintain effective internal control over financial reporting in the future, the accuracy and timing of our financial reporting may be adversely affected.***

Preparing our consolidated financial statements involves a number of complex manual and automated processes, which are dependent upon individual data input or review and require significant management judgment. One or more of these elements may result in errors that may not be detected and could result in a material misstatement of our consolidated financial statements. The Sarbanes-Oxley Act requires, among other things, that as a publicly-traded company we disclose whether our internal control over financial reporting and disclosure controls and procedures are effective.

If a material misstatement occurs in the future, we may fail to meet our future reporting obligations. For example, we may fail to file periodic reports in a timely manner or may need to restate our financial results, either of which may cause the price of our common stock to decline. Any failure of our internal controls could also adversely affect the results of the periodic management evaluations and annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal control over financial reporting that are required under Section 404 of the Sarbanes-Oxley Act. Effective internal controls are necessary for us to produce reliable financial reports and are important to helping prevent financial fraud. Furthermore, any potential transition in enterprise resource planning or other major operational system could impact the timely generation of our financial statements. If we cannot provide reliable financial reports or prevent fraud, our business and results of operations could be harmed, investors could lose confidence in our reported financial information, and the trading price of our stock could drop significantly.

***If tax laws change or we experience adverse outcomes resulting from examination of our income tax returns, it could adversely affect our results of operations.***

We are subject to federal, state and local income taxes in the United States and in foreign jurisdictions. Our future effective tax rates and the value of our deferred tax assets could be adversely affected by changes in tax laws. In addition, we are subject to the examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from such examinations to determine the adequacy of our provision for income taxes. Significant judgment is required in determining our worldwide provision for income taxes. Although we believe we have made appropriate provisions for taxes in the jurisdictions in which we operate, changes in the tax laws or challenges from tax authorities under existing tax laws could adversely affect our business, financial condition and results of operations.

***We may not be able to obtain capital when desired on favorable terms, if at all, or without dilution to our stockholders.***

We may need additional financing to execute on our current or future business strategies, including to develop new or enhance existing products and services, acquire businesses and technologies, or otherwise to respond to competitive pressures.

If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our stockholders could be significantly diluted, and these newly-issued securities may have rights, preferences or privileges senior to those of existing stockholders. If we incur additional funds through debt financing, a substantial portion of our operating cash flow may be dedicated to the payment of principal and interest on such indebtedness, thus limiting funds available for our business activities. We cannot assure you that additional financing will be available on terms favorable to us, or at all. If adequate funds are not available or are not available on acceptable terms, when we desire them, our ability to fund our operations, take advantage of unanticipated opportunities, develop or enhance our products and services, or otherwise respond to competitive pressures would be significantly limited. Any of these factors could harm our results of operations.

***Our business is subject to the risks of earthquakes, fire, floods and other natural catastrophic events, and to interruption by man-made problems such as computer viruses.***

Our corporate headquarters and the majority of our operations are located in the San Francisco Bay Area, a region known for seismic activity. A significant natural disaster, such as an earthquake, tsunami, fire or a flood, could have a material adverse impact on our business, results of operations and financial condition. In addition, our servers are vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems. To the extent that such disruptions result in delays or cancellations of customer orders, or the deployment of our products, our business, results of operations and financial condition would be adversely affected.

***Our stock price may be volatile, which could result in securities class action litigation against us.***

The market price of our common stock could be subject to wide fluctuations in response to, among other things, the risk factors described in this report, and other factors beyond our control, such as fluctuations in the valuation of companies perceived by investors to be comparable to us and research analyst coverage about our business.

Furthermore, the stock markets have experienced price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political and market conditions, such as recessions, interest rate changes or international currency fluctuations, have and may continue to affect the market price of our common stock.

In the past, many companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may become the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, which could seriously harm our business.

***We currently do not intend to pay dividends on our common stock and, consequently, your only opportunity to achieve a return on your investment is if the price of our common stock appreciates.***

We currently do not plan to declare dividends on shares of our common stock in the foreseeable future. Consequently, the only opportunity to achieve a return on investment in our company will be if the market price of our common stock appreciates and shares are sold at a profit.

***Certain provisions of our certificate of incorporation and bylaws and of Delaware law could prevent a takeover that stockholders consider favorable and could also reduce the market price of our stock.***

Our amended and restated certificate of incorporation and our amended and restated bylaws contain provisions that could delay or prevent a merger, acquisition or other change in control that stockholders may consider favorable, including

transactions in which stockholders might otherwise receive a premium for their shares. These provisions may also prevent or delay attempts by stockholders to replace or remove our current management or members of our board of directors. These provisions include:

- providing for a classified board of directors with staggered three-year terms, which could delay the ability of stockholders to change the membership of a majority of our board of directors;
- not providing for cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;
- authorizing our board of directors to issue, without stockholder approval, preferred stock rights senior to those of common stock, which could be used to significantly dilute the ownership of a hostile acquirer;
- prohibiting stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- limiting the persons who may call special meetings of stockholders, which could delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors; and
- requiring advance notification of stockholder nominations and proposals, which may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of us.

The affirmative vote of the holders of at least 66<sup>2</sup>/<sub>3</sub>% of our shares of capital stock entitled to vote is generally necessary to amend or repeal the above provisions that are contained in our amended and restated certificate of incorporation. Also, absent approval of our board of directors, our amended and restated bylaws may only be amended or repealed by the affirmative vote of the holders of at least 50% of our shares of capital stock entitled to vote.

In addition, we are subject to the provisions of Section 203 of the Delaware General Corporation Law. These provisions may prohibit large stockholders, in particular those owning 15% or more of our outstanding common stock, from engaging in certain business combinations without approval of substantially all of our stockholders for a certain period of time.

These and other provisions in our amended and restated certificate of incorporation, our amended and restated bylaws and under Delaware law could discourage potential takeover attempts, reduce the price that investors might be willing to pay for shares of our common stock in the future and result in the market price being lower than it would be without these provisions.



**ITEM 6. Exhibits**

The exhibits listed below are filed or incorporated by reference as part of this Report.

<b>Exhibit Number</b>	<b>Description</b>	<b>Incorporated by Reference From Form</b>	<b>Incorporated by Reference From Exhibit Number</b>	<b>Date Filed</b>
3.1	Amended and Restated Certificate of Incorporation	10-Q	3.1	March 14, 2012
3.2	Amended and Restated Bylaws	8-K	3.1	January 22, 2013
4.1	Form of Common Stock certificate of the Registrant	S-1/A	4.1	January 9, 2012
10.9	Form of Performance-Based Restricted Stock Unit Award Agreement under the 2011 Stock Plan	Filed herewith		
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act	Filed herewith		
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act	Filed herewith		
32.1*	Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act	Furnished herewith		
101.INS	XBRL Instance Document	Filed herewith		
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith		
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith		
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith		
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith		
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith		

\* The certifications furnished in Exhibit 32.1 hereto are deemed to accompany this Quarterly Report on Form 10-Q and will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended. Such certifications will not be deemed to be incorporated by reference into any filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the registrant specifically incorporates it by reference.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: December 1, 2015

**GUIDEWIRE SOFTWARE, INC.**

By: /s/ Richard Hart  
Richard Hart  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

**Guidewire Software, Inc. 2011 Stock Plan  
Restricted Stock Unit Award Agreement**

**SECTION 1. GRANT OF AWARD**

On the terms and conditions set forth in the Notice of Grant of Award dated \_\_\_\_\_ and this Award Agreement, the company grants to the Grantee on the Date of Grant the award for the number of Restricted Stock Units (the "Target Grant Amount") set forth in the Notice of Grant of Award, which such Target Grant Amount is subject to adjustment as described below.

In addition to the time-based vesting indicated on the Notice of Grant of Award (the "Time Condition"), the Restricted Stock Units (the "PSUs") are subject to performance-based vesting (the "Performance Factor") as described below. Both the Time Condition and some level of the Performance Factor must be satisfied before the PSUs will be deemed to be vested. After a determination of the Performance Factor has been made, the total number of PSUs granted to the Grantee (the "Final Grant Amount") shall be set pursuant to the following formula: Target Grant Amount \* Performance Factor = Final Grant Amount.

The Performance Factor is dependent on \_\_\_\_\_.

Upon achievement of a Performance Factor greater than 0.0, then any PSUs that had previously satisfied the Time Condition shall become fully vested and any PSUs that had not previously satisfied the Time Condition shall become fully vested as such Time Condition is satisfied. If a Performance Factor greater than 0.0 is not achieved, then 100% of the PSUs will be forfeited.

In the event that the Company makes any acquisitions during Fiscal Year 2016, the Committee shall adjust the Performance Factor (by adjusting the targets) to reflect the impact of such acquisition(s). The Committee shall adjust the thresholds above to reflect the anticipated, recognizable \_\_\_\_\_ from the acquired entity or assets for the remainder of Fiscal Year \_\_\_\_\_ as outlined in the management case presented to the Board of Directors on or around the closing of the applicable transaction.

**SECTION 2. RESTRICTIONS ON TRANSFER OF AWARD**

The Award may not be sold, transferred, pledged, assigned or otherwise encumbered or disposed of by the Grantee, and, subject to the restrictions contained in this Award Agreement and the Plan, Shares issuable with respect to the Award may not be sold, transferred, pledged, assigned or otherwise encumbered or disposed of until (i) the Restricted Stock Units have vested as provided in the Notice and (ii) Shares have been issued to the Grantee in accordance with the terms of the Plan and this Award Agreement.

**SECTION 3. TERMINATION OF SERVICE**

If the Grantee's Service terminates for any reason (including death or disability) prior to a Vesting Date, any Restricted Stock Units that have not vested as of such date shall automatically and without notice terminate and be forfeited, and neither the Grantee nor any of his or her successors, heirs, assigns, or personal representatives will thereafter have any further rights or interests in such forfeited Restricted Stock Units.

**SECTION 4. RECEIPT OF SHARES OF STOCK**

As soon as practicable following each Vesting Date (but in no event later than two and one-half months after the end of the year in which the Vesting Date occurs), the Company shall issue to the Grantee the number of Shares equal to the aggregate number of Restricted Stock Units that have vested pursuant to the Notice and this Award Agreement on such date and the Grantee shall thereafter have all the rights of a stockholder of the Company with respect to such Shares.

#### **SECTION 5. INCORPORATION OF PLAN**

Notwithstanding anything herein to the contrary, this Award Agreement shall be subject to and governed by all the terms and conditions of the Plan, including the powers of the Committee set forth in Section 2(b) of the Plan. Capitalized terms in this Award Agreement shall have the meaning specified in the Plan, unless a different meaning is specified herein.

#### **SECTION 6. TAX WITHHOLDING**

Regardless of any action that the Company, the Grantee's actual employer or any Parent, Subsidiary or affiliate to which the Grantee provides Service if the Grantee is a Consultant (collectively, the "Employer") takes with respect to any or all income tax, social insurance, payroll tax, payment on account, or other tax-related items related to the Grantee's participation in the Plan and legally applicable to him or her ("Tax-Related Items"), the Grantee acknowledges that the ultimate liability for all Tax-Related Items is and remains the Grantee's responsibility and may exceed the amount actually withheld by the Company or the Employer. The Grantee further acknowledges that the Company and/or the Employer (a) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Restricted Stock Units, including, without limitation, the grant, vesting, or settlement of the Restricted Stock Units, the issuance of Shares upon settlement, the subsequent sale of Shares acquired pursuant to such issuance, and the receipt of any dividends or dividend equivalents; and (b) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Restricted Stock Units to reduce or eliminate the Grantee's liability for Tax-Related Items or achieve any particular tax result. The Grantee shall not make any claim against the Company or its Board of Directors, officers or employees related to Tax-Related Items arising from this Award or the Grantee's other compensation. Furthermore, if the Grantee has become subject to tax in more than one jurisdiction between the Grant Date and the date of any relevant taxable or tax withholding event, as applicable, the Grantee acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

Prior to any relevant taxable or tax withholding event, as applicable, the Grantee will pay or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Tax-Related Items. In this regard, the Grantee authorizes the Company and/or the Employer, or their respective agents, at their discretion, to satisfy the obligations with regard to all Tax-Related Items by one or a combination of the following:

- (a) payment by the Grantee to the Company and/or Employer; or
- (b) withholding from the Grantee's wages or other cash compensation paid to him or her by the Company and/or the Employer; or
- (c) withholding from proceeds of the sale of Shares acquired upon vesting and settlement of the Restricted Stock Units, either through a voluntary sale or through a mandatory sale arranged by the Company (on the Grantee's behalf pursuant to this authorization); or

(d) withholding in Shares to be issued upon vesting and settlement of the Restricted Stock Units; provided, however, that if Grantee is a Section 16 officer of the Company under the Exchange Act, then the Committee shall establish the method of withholding from alternatives (a)-(c) herein.

To avoid negative accounting treatment, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding amounts or other applicable withholding rates. If the obligation for Tax-Related Items is satisfied by withholding in Shares, the Grantee is deemed, for tax purposes, to have been issued the full number of Shares subject to the vested Restricted Stock Units, notwithstanding that a number of the Shares is held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of the Grantee's participation in the Plan.

Finally, the Grantee shall pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold or account for as a result of the Grantee's participation in the Plan that cannot be satisfied by the means previously described. The Company may refuse to issue or deliver the Shares or the proceeds of the sale of Shares if the Grantee fails to comply with his or her obligations in connection with the Tax-Related Items.

#### **SECTION 7. SECTION 409A**

This Award Agreement shall be interpreted in such a manner that all provisions relating to the settlement of the Award are exempt from the requirements of Section 409A of the Code as "short-term deferrals" as described in Section 409A of the Code. Solely for purposes of Section 409A of the Code, each issuance of Shares on a Vesting Date shall be considered a separate payment. The Company makes no representations or warranty and shall have no liability to the Grantee or any other person if any provisions of this Award are determined to constitute deferred compensation subject to Section 409A of the Code but do not satisfy an exemption from, or the conditions of, such Section.

#### **SECTION 8. MISCELLANEOUS PROVISIONS**

(a) **Notice.** Any notice required by the terms of this Award Agreement shall be given in writing. It shall be deemed effective upon (i) personal delivery, (ii) deposit with the United States Postal Service, by registered or certified mail, with postage and fees prepaid or (iii) deposit with Federal Express Corporation (or other overnight courier service approved by the Company), with shipping charges prepaid. Notice shall be addressed to the Company at its principal executive office and to the Grantee at the address that he or she most recently provided to the Company in accordance with this Subsection (a).

(b) **Entire Agreement.** This Award Agreement and the Plan constitute the entire contract between the parties hereto with regard to the subject matter hereof. They supersede any other agreements, representations or understandings (whether oral or written and whether express or implied) that relate to the subject matter hereof.

(c) **Governing Law; Choice of Venue.** The Award and the provisions of this Award Agreement shall be governed by and construed in accordance with the General Corporation Law of the State of Delaware as to matters within the scope thereof, and as to all other matters shall be governed by and construed in accordance with the internal laws of the State of California, without regard to conflict of law principles that would result in the application of any law other than the law of the State of California. For purposes of litigating any dispute that arises directly or indirectly from the relationship of the parties evidenced by the Award or this Award Agreement and/or the Plan, the parties hereby submit to and consent to the exclusive jurisdiction of the State of California and agree that such litigation shall be conducted only in the courts of the County of San Mateo, California, or the United States federal courts for the Northern District of California, and no other courts, where the grant of the Award is made and/or to be performed.

(d) **Authorization to Disclose.** The Grantee hereby authorizes and directs the Employer to disclose to the Company or any Parent or Subsidiary such information regarding the Grantee's Service, the nature and amount of Grantee's compensation and the fact and conditions of Grantee's participation in the Plan as the Employer deems necessary or appropriate to facilitate the administration of the Plan.

(e) **Severability.** The provisions of this Award Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions nevertheless shall be binding and enforceable.

(f) **Imposition of Other Requirements.** The Company reserves the right to impose other requirements on the Grantee's participation in the Plan, on this Award and on any Shares acquired under the Plan, to the extent that the Company determines that it is necessary or advisable in order to comply with applicable law or facilitate the administration of the Plan, and to require the Grantee to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

#### **SECTION 9. ACKNOWLEDGEMENTS OF THE GRANTEE**

(g) **Nature of Award.** In accepting this Award the Grantee acknowledges, understands, and agrees that:

(i) the Plan is established voluntarily by the Company, is discretionary in nature and may be modified, amended, suspended, or terminated by the Company at any time;

(ii) the grant of this Award is voluntary and occasional and does not create any contractual or other right to receive future Awards, or benefits in lieu of Awards, even if such grants have been made repeatedly in the past;

(iii) all decisions with respect to future Awards, if any, will be at the sole discretion of the Company;

(iv) the Grantee's participation in the Plan shall not create a right to perform future Service with the Employer and shall not interfere with the ability of the Employer to terminate the Grantee's Service at any time;

(v) the Grantee's participation in the Plan is voluntary;

(vi) this Award and the Shares subject to this Award are extraordinary items that do not constitute compensation of any kind for services of any kind rendered to the Company or the Employer, and which are outside the scope of the Grantee's employment or other contract for Services, if any;

(vii) this Award and the Shares subject to this Award are not intended to replace any pension rights or compensation;

(viii) this Award and the Shares subject to this Award are not part of normal or expected compensation or salary for any purposes, including, without limitation, calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments and in no event should be considered as compensation for, or relating in any way to, past services to the Company, the Employer, or any Parent, Subsidiary or affiliate of the Company;

(ix) this Award and the Grantee's participation in the Plan shall not be interpreted to form an employment contract or Service relationship with the Company, the Employer, any Parent, Subsidiary or affiliate of the Company;

(x) the future value of the Shares subject to this Award is unknown and cannot be predicted with certainty;

(xi) if the Grantee is issued Shares in settlement of this Award, the value of the Shares acquired may increase or decrease in value;

(xii) no claim or entitlement to compensation or damages shall arise from forfeiture of any portion of this Award resulting from termination of the Grantee's Service by the Company or the Employer (for any reason whatsoever and regardless of whether in breach of applicable labor

laws or whether later found to be invalid); and, in consideration of the grant of this Award, to which the Grantee is not otherwise entitled, the Grantee irrevocably agrees never to institute any claim against the Company or the Employer, waives his or her ability, if any, to bring any such claim, and releases the Company and the Employer from any such claim; if, notwithstanding the foregoing, any such claim is allowed by a court of competent jurisdiction, then, by participating in the Plan, the Grantee shall be deemed irrevocably to have agreed not to pursue such claim and agrees to execute any and all documents necessary to request dismissal or withdrawal of such claims;

(xiii) in the event of termination of the Grantee's Service (regardless of whether in breach of applicable labor laws or whether later found to be invalid), the Grantee's right to continue to vest in the Restricted Stock Units, if any, will terminate effective as of the date of termination of the Grantee's active Service and will not be extended by any notice period mandated under applicable law; further, in the event of termination of the Grantee's Service (regardless of whether in breach of applicable labor laws), the Grantee's right to receive vested shares of this Award, if any, will be measured as of the date of termination of the Grantee's active Service and will not be extended by any notice period mandated under applicable law; the Committee shall have the exclusive discretion to determine when the Grantee's active Service is terminated for purposes of this Award (including whether the Grantee may still be considered actively employed while on a leave of absence); and

(xiv) the Grantee has received and read a copy of the Plan.

(h) **No Advice Regarding Award.** The Company is not providing any tax, legal, or financial advice, nor is the Company making any recommendations regarding the Grantee's participation in the Plan, or his or her acquisition or sale of the Shares subject to this Award. The Grantee is solely responsible for taking all appropriate legal advice, notably concerning U.S. and local country tax and social security regulations, when signing this Award Agreement, or selling the Shares acquired upon settlement of the Award, or more generally when making any decision in relation with this Award, this Award Agreement or otherwise under the Plan. The Company does not represent or guaranty that the Grantee may benefit from specific provisions under said regulations and the Grantee shall on his or her own efforts receive proper information in this respect. The Grantee is hereby advised to consult with his or her personal tax, legal, and financial advisors regarding his or her participation in the Plan before taking any action related to the Plan.

(i) **Tax Consequences.** The Grantee agrees that the Company does not have a duty to design or administer the Plan or its other compensation programs in a manner that minimizes the Grantee's liability for Tax-Related Items. The Grantee shall not make any claim against the Company or its Board of Directors, officers or employees related to Tax-Related Items arising from this Award.

(j) **Electronic Delivery of Documents.** The Grantee agrees that the Company may decide, in its sole discretion, to deliver by email or other electronic means any documents relating to the Plan or this Award (including, without limitation, a copy of the Plan) and all other documents that the Company is required to deliver to its security holders (including, without limitation, disclosures that may be required by the U.S. Securities and Exchange Commission). The Grantee also agrees that the Company may deliver these documents by posting them on a website maintained by the Company or by a third party under contract with the Company. If the Company posts these documents on a website, it shall notify the Grantee by email.

**CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF  
THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Marcus S. Ryu, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Guidewire Software, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 1, 2015

By:           /s/ MARCUS S. RYU          

Marcus S. Ryu  
President and Chief Executive Officer  
(Principal Executive Officer)



**CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF  
THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Richard Hart, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Guidewire Software, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 1, 2015

By: /s/ RICHARD HART

Richard Hart  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Guidewire Software, Inc. for the quarterly period ended October 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Marcus S. Ryu, as Chief Executive Officer of Guidewire Software, Inc., hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Guidewire Software, Inc.

Date: December 1, 2015

By: /s/ MARCUS S. RYU

Marcus S. Ryu  
President and Chief Executive Officer  
(Principal Executive Officer)

In connection with the Quarterly Report on Form 10-Q of Guidewire Software, Inc. for the quarterly period ended October 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Richard Hart, as Chief Financial Officer of Guidewire Software, Inc., hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Guidewire Software, Inc.

Date: December 1, 2015

By: /s/ RICHARD HART

Richard Hart  
Chief Financial Officer  
(Principal Financial and Accounting Officer)